Property Tax Reform Summit

Supplemental Materials

Don Langston's Presentation

Florida's Property Tax Study
Interim Report

(As required by Chapter 2006-311, Laws of Florida)

Legislative Office of Economic and Demographic Research

Foundation of Facts

- Legislatively required study.
- Based on data and historical record with the exception of the portability estimate.
- Primary focus on:
  - Findings related to the Department of Revenue data
  - Background material sufficient to develop those findings
  - Legal analysis of the various proposals

Findings from EDR Research

- **Exemptions** shrink the property tax base and, in Florida, reduce the total capacity to raise revenues. They also shift the property tax burden (and cost for public services) from the exempt entity to nonexempt entities.

Just Value of the Property (Fair Market Value)	−	**Differentials** (Value in Use for agricultural properties & Save Our Homes)	=	**Assessed Value**
Assessed Value	−	**Exemptions** ($25,000 Homestead Exemption; property used exclusively for charitable purposes, etc.)	=	**Taxable Value**
Taxable Value	×	**Millage Rate** (Property Tax Rate)	=	**Property Taxes**

Tax Effects

- Studies have shown that tax breaks for residential property (such as Save Our Homes) will increase **housing prices** for the benefited properties. The converse is also true – higher property taxes suppress housing prices, all else being equal.

- Several studies have found that **commercial and industrial investment** tends to be more responsive to tax rates than residential investment. This means that the increasing shift of the property tax burden to businesses may cause them to reduce or eliminate commercial investment – in some instances, leading them to investments in other states where the property taxes are less burdensome.

What Has Happened?

- The interplay between falling statewide millage rates and the Save Our Homes limitation being less than the growth in the consumer price index for four out of the twelve years since implementation has had the practical effect of producing ***real* tax bills that are lower today** than they were in 1994 for those homesteads that have been protected since then, assuming adjustments for inflation.

Tax Rolls Affected by Save Our Homes

Year	Save Our Homes Limitation	Median Sales Price of an Existing Home
1995	2.7%	2%
1996	2.5%	5%
1997	3.0%	4%
1998	1.7%	6%
1999	1.6%	7%
2000	2.7%	7%
2001	3.0%	9%
2002	1.6%	9%
2003	2.4%	12%
2004	1.9%	17%
2005	3.0%	29%
2006	3.0%	6%

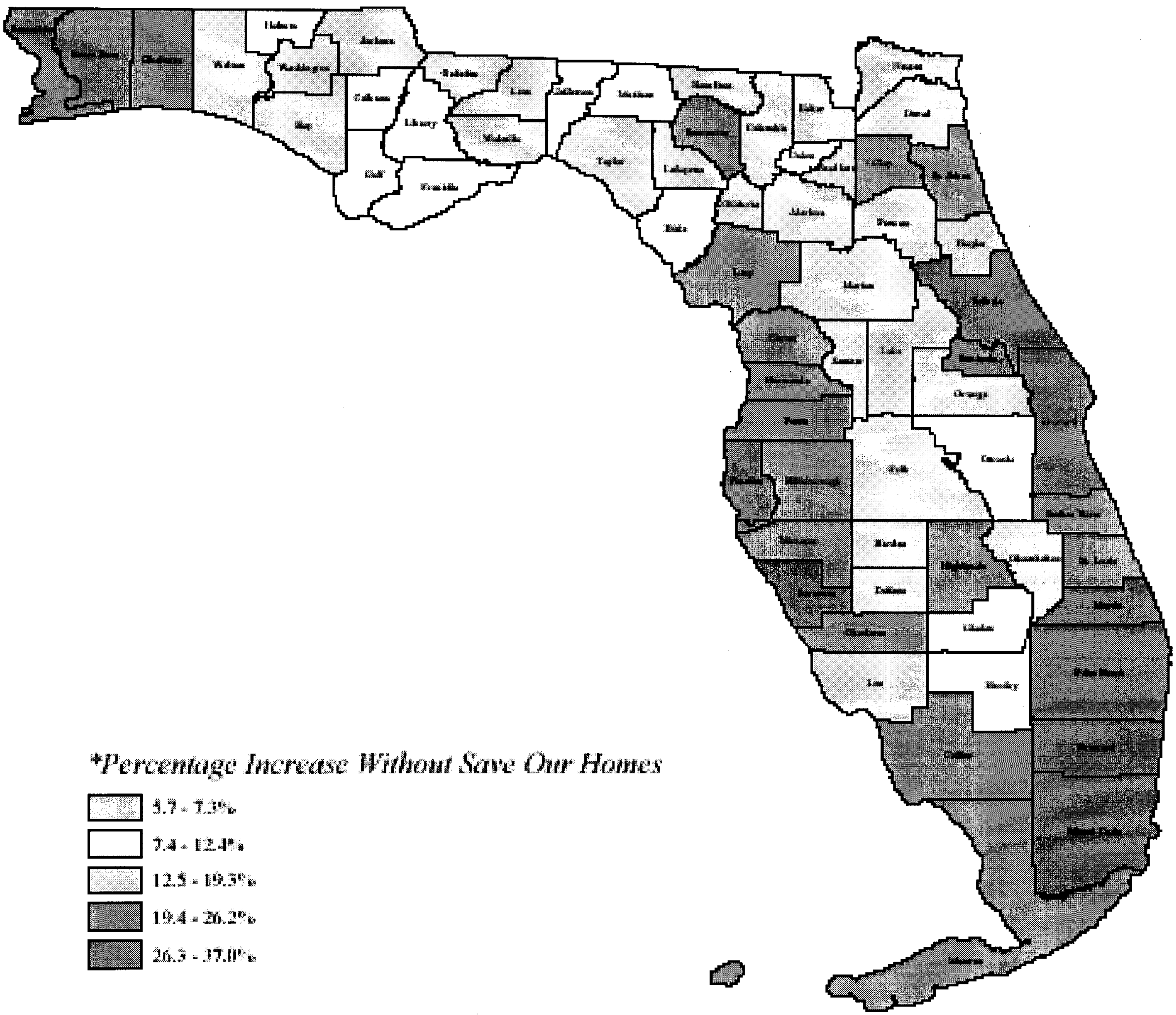
Findings Based on DOR Data

- As intended, the Save Our Homes amendment has **suppressed the taxable value** of homestead properties in Florida. In doing so, it has significantly shifted the tax burden away from homestead property and onto non-homestead residential and non-residential property.

	Percent of Taxable Value	
	Current	**W/O SOH**
Homestead Property	32.1%	45.5%
Non-Homestead Residential	34.5%	28.4%
Non-Residential Property	32.5%	26.1%

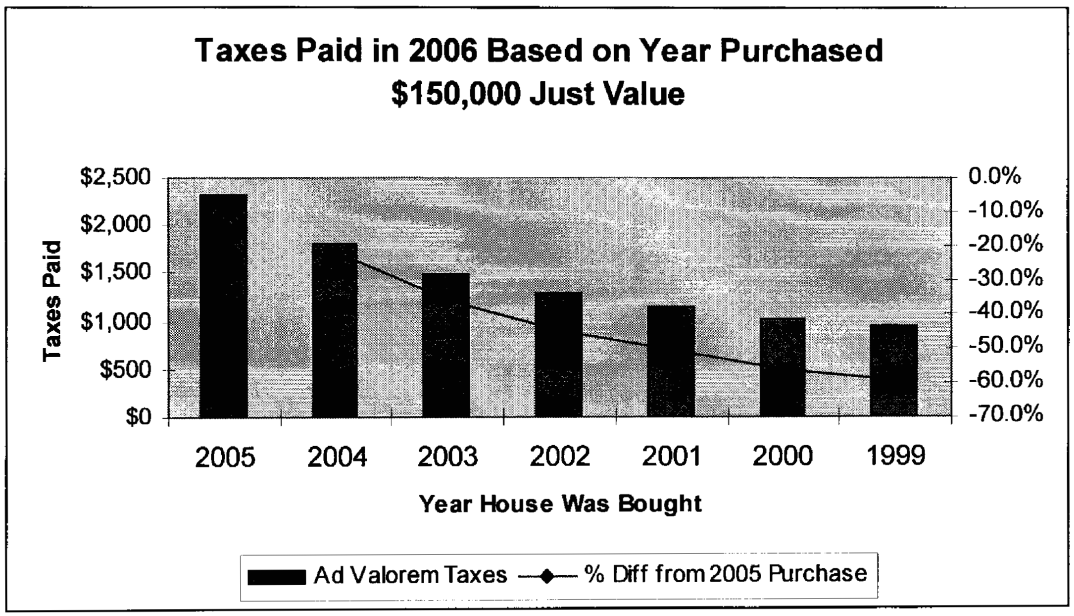
Differentials and Burdens

- The impact of Save Our Homes varies considerably by county; however, the greatest differentials have generally occurred in the **coastal areas of central and south Florida, and the extreme edges of north Florida**. Because larger differentials lead to greater tax shifting, non-homestead residential and non-residential property owners in those counties have increased tax burdens.


*Percentage Increase Without Save Our Homes
5.7 - 7.3%
7.4 - 12.4%
12.5 - 19.3%
19.4 - 26.2%
26.3 - 37.0%

Equity

- A direct outcome of the Save Our Homes tax preference is that **dissimilar tax burdens have been placed on homeowners in similar circumstances**, based solely on length of ownership. This is a horizontal inequity.



Affordability

- The dissimilar nature of the tax burden caused by Save Our Homes has an impact on the overall **affordability of housing** for individual buyers, but more research needs to be conducted prior to determining whether the increased burden is cost prohibitive to homebuyers and renters.
- The Save Our Homes protection has made it possible for homeowners on the margin to **remain in their homes longer** than they otherwise could have, but more research needs to be conducted on existing homeowners' ability-to-pay prior to determining the magnitude of this effect.

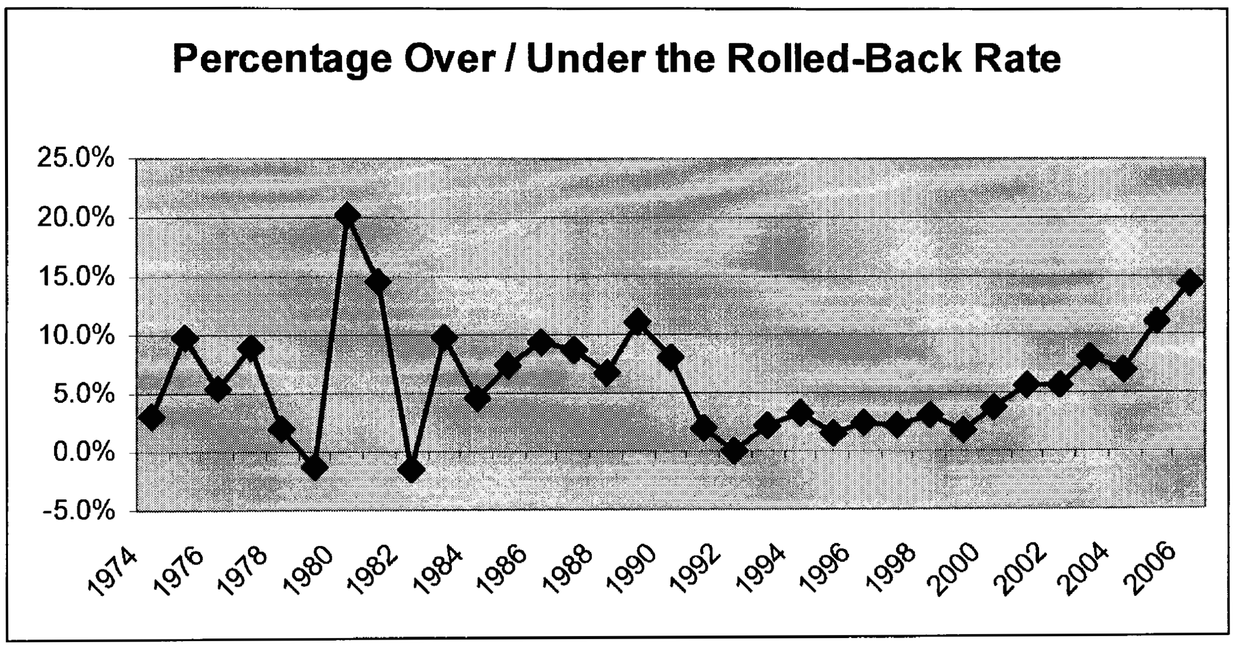
State Funding for Schools

- The presence of the Save Our Homes assessment growth limitation has had a **detectable impact on the distribution of the state-funded portion of the FEFP** in Florida. While the total funding per student is not affected, the mix of local and state funding is altered between school districts. This is turn affects the local property tax burden. Approximately $135 million or 1.8% of the total required local effort has been impacted.

- To the extent that the greatest differentials have generally occurred in the coastal areas of central and south Florida, and the extreme edges of north Florida (as previously found), these areas have **disproportionately benefited from the interaction of the FEFP with the Save Our Homes protection**, while the other areas have experienced higher school property taxes than they otherwise would have.

Rolled-Back Rate

- For the 33 year period from 1974 to 2006, local taxing jurisdictions levied millages that were an average of **6.1% above the rolled-back rate**. For public school levies, this average was 5.8%, and for all other taxing jurisdictions, 6.4%. To the extent that homesteaded properties were protected by Save Our Homes, the **tax increases fell disproportionately on non-homesteaded properties.**



Affordability

- While the dollar value of the property tax burden may have increased for many Floridians, this does not translate directly into statements regarding individual affordability and ability-to-pay. **Homesteaders are shielded from the full impact of tax increases at the expense of non-homesteaders**.

Tax Burdens

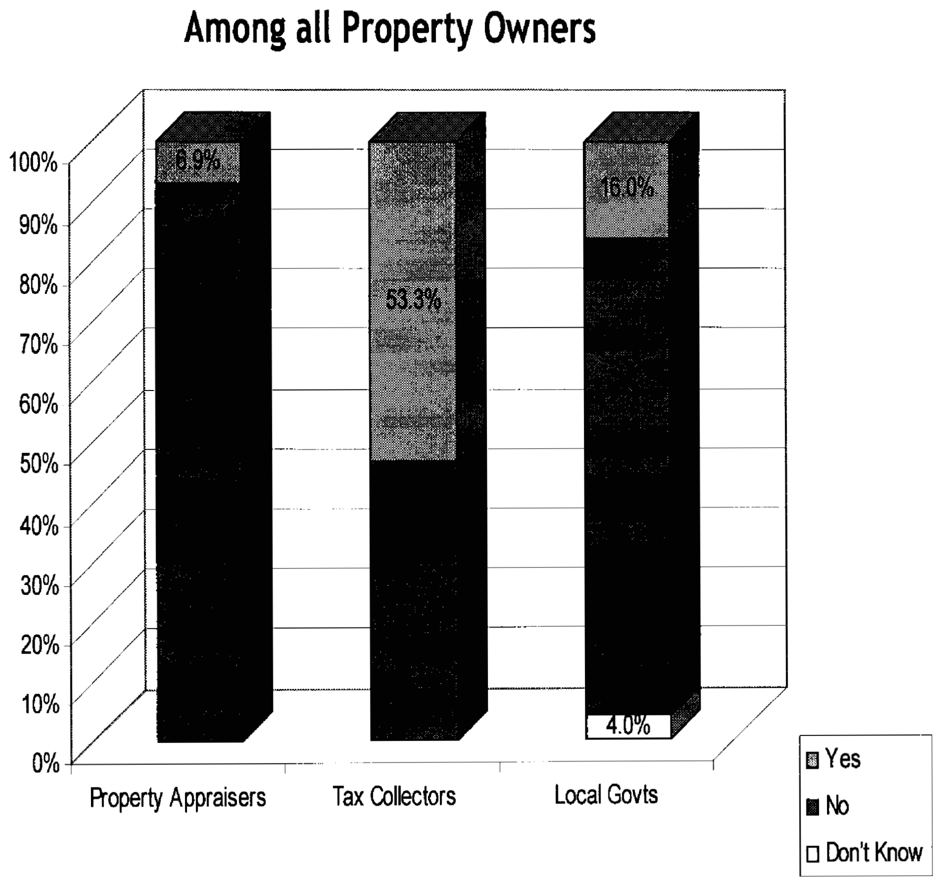
- The impact of Save Our Homes on net property tax burdens is difficult to assess without additional study. **Personal wealth** as reflected in higher just values is not fully captured by measures of personal income, and **tax exportation** to other states and the federal government is rarely taken into account.

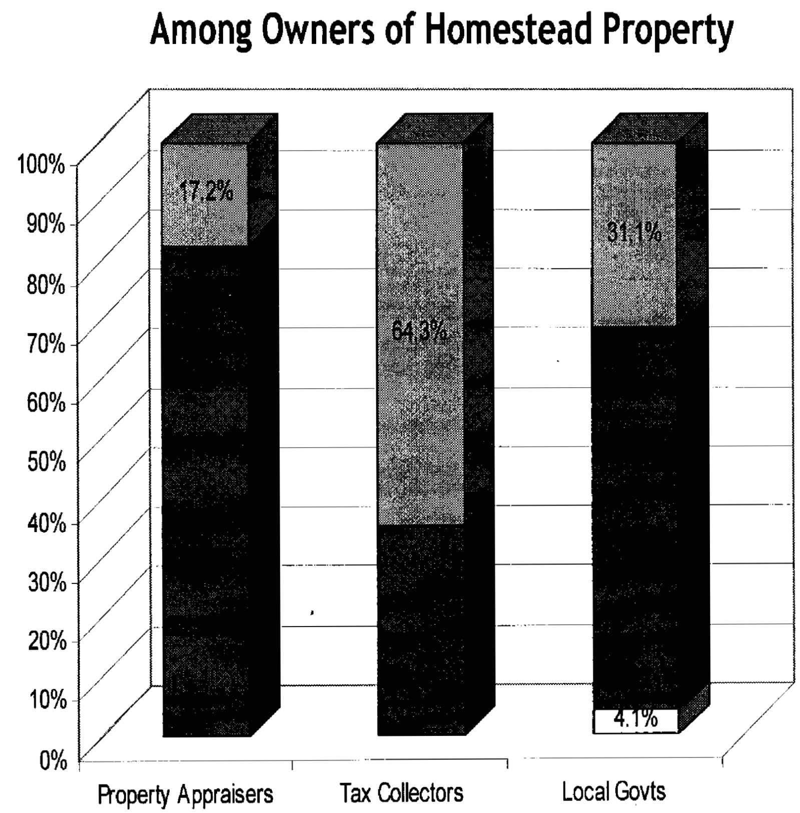
- Because Save Our Homes has shielded homesteaded property owners from the full effect of tax increases, the **visibility and awareness of the taxes being paid has been reduced**, potentially leading to an over-demand of services.

Findings Based on EDR Surveys

- Both local government officials and the county property appraisers feel that the property tax burden is not shared equitably among all property owners *or* among owners of homestead property, whereas the tax collectors were evenly divided on the question for all owners and thought that the burden was equitable for owners of homestead property.
  - Most of the comments regarding whether the property tax burden is shared equitably pointed to "Save Our Homes" or to the class of all exemptions as the cause of the inequities.

Survey Results on Equity





TRIM Process

- Property appraisers, county tax collectors, and local government officials were all asked to explain the primary purpose of the TRIM process. The responses were varied and wide-ranging indicating that there is no consistent vision of the primary purpose of TRIM in Florida.
  - When asked if TRIM was achieving its purpose, only the tax collectors strongly indicated that it was.
  - Comments on the TRIM notice indicated that the form is confusing, hard to understand and provides too much information.

Sorting Through the Numbers

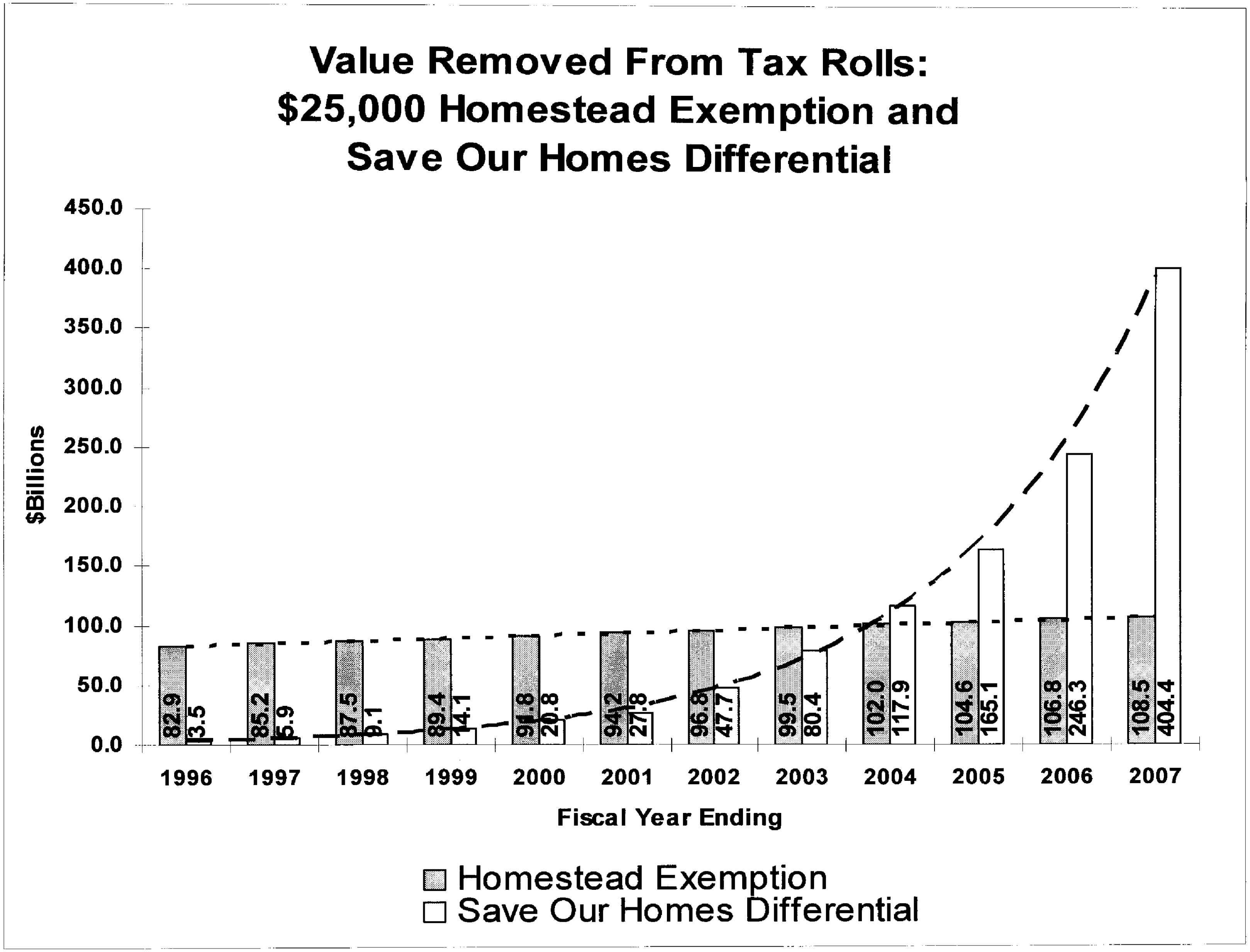
Florida House of Representatives
Property Tax Summit

February 19, 2007

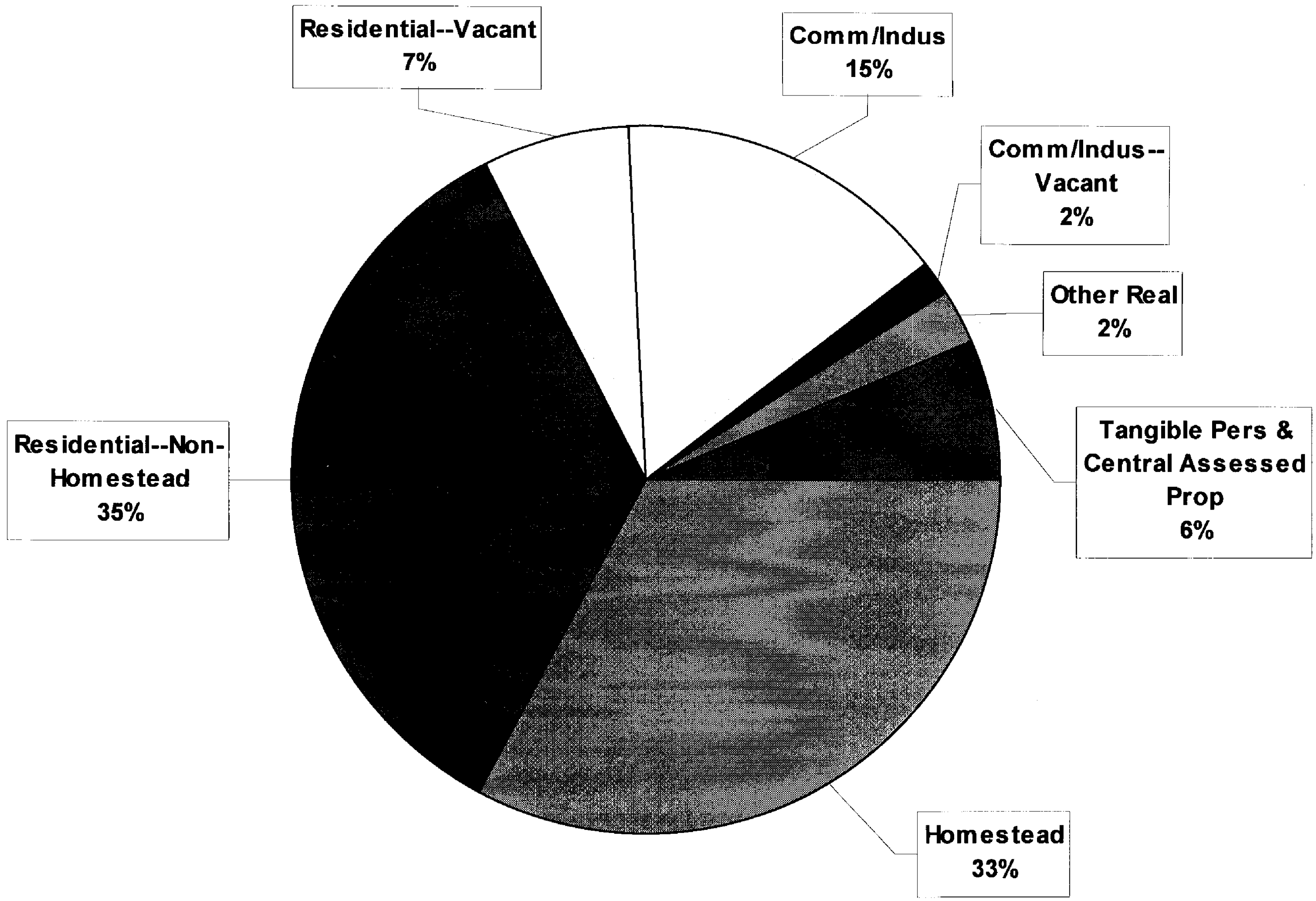
Florida Property Tax Base Calculation

(Billions of $)

		FY 2006-07	
Just Value		**2,441.0**	**100%**
Exceptions:			
Save Our Homes Differential	(404.4)		
Agricultural Classification	(68.8)		
Pollution Control Devices	(2.3)		
Other	(0.1)	(475.6)	-19%
Assessed Value		**1,965.4**	**81%**
Exemptions:			
Governmental	(153.0)		
Homestead	(108.5)		
Institutional	(49.8)		
Other	(5.4)	(316.7)	-13%
Taxable Value		**1,648.7**	**68%**


Value Removed From Tax Rolls:
$25,000 Homestead Exemption and
Save Our Homes Differential
$Billions
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
82.9
3.5
85.2
5.9
87.5
9.1
89.4
14.1
91.8
20.8
94.2
27.8
96.8
47.7
99.5
80.4
102.0
117.9
104.6
165.1
106.8
246.3
108.5
404.4
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Fiscal Year Ending
Homestead Exemption
Save Our Homes Differential

Florida Taxable Value, FY 2006-07



Operating Millages: FY 2006-07

(Jurisdiction-Wide Only)

	Counties	Schools	Cities
# of Levying Jurisdictions	67	67	379
Average	6.989	7.243	4.466
Median	6.751	7.685	4.500
At 10 Mills	10	0	0
% of Jurisdictions	15%		
8 + Mills	28	1	29
% of Jurisdictions	42%	1.5%	7.7%

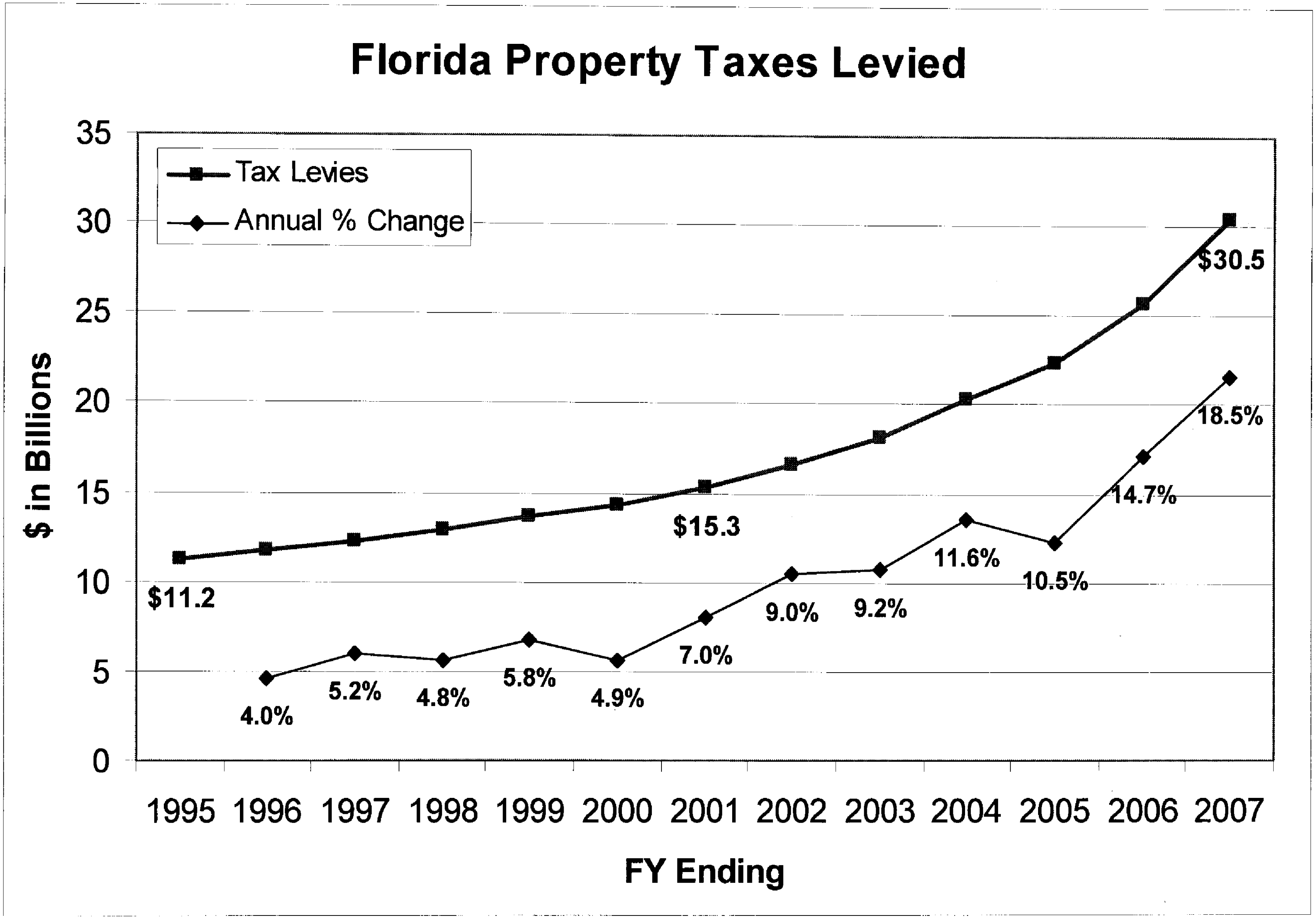
Taxpayers Have Three Main Areas of Concern

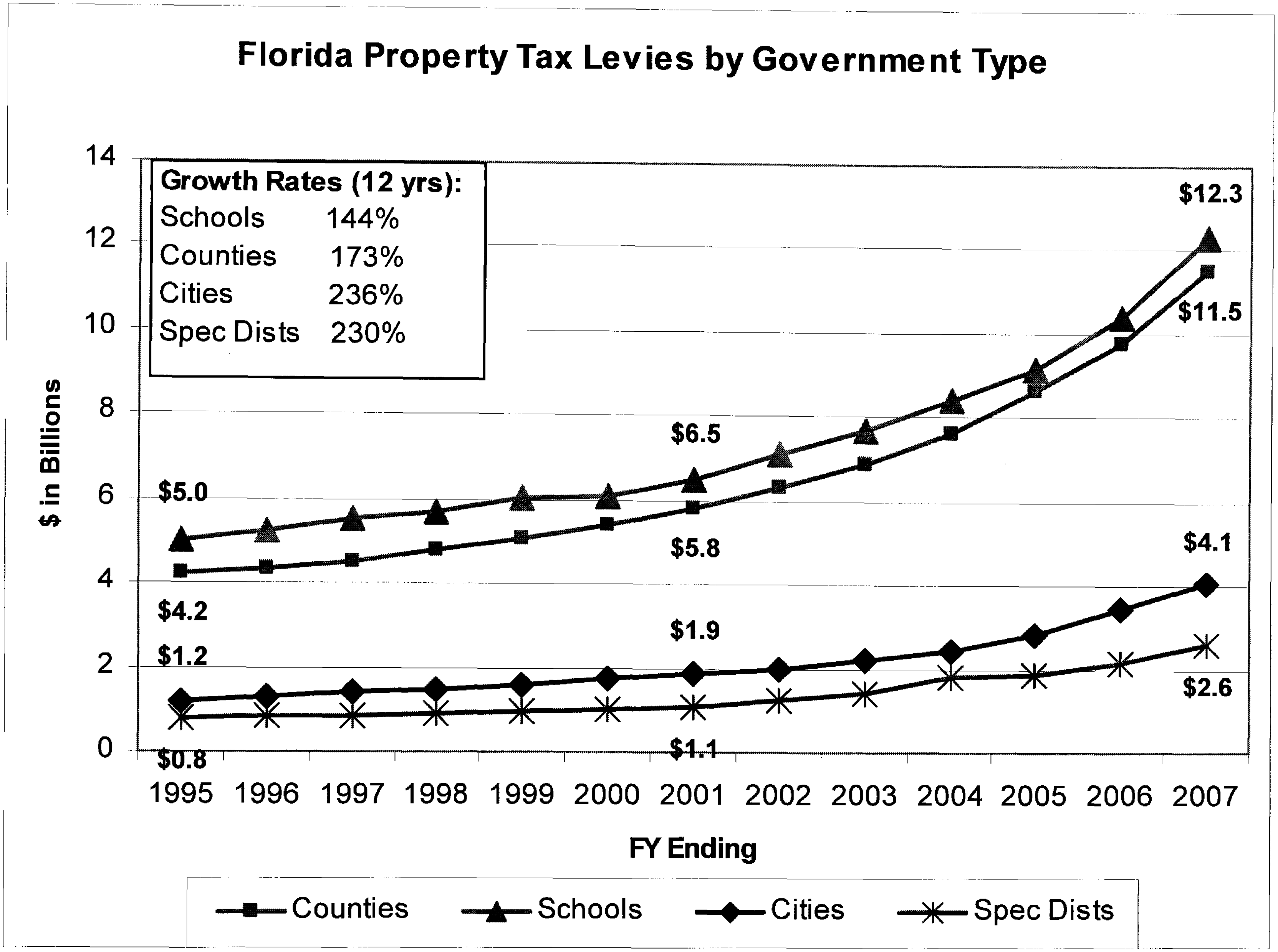
- **AFFORDABILITY**—Property taxes are exceeding the ability of many taxpayers to pay.

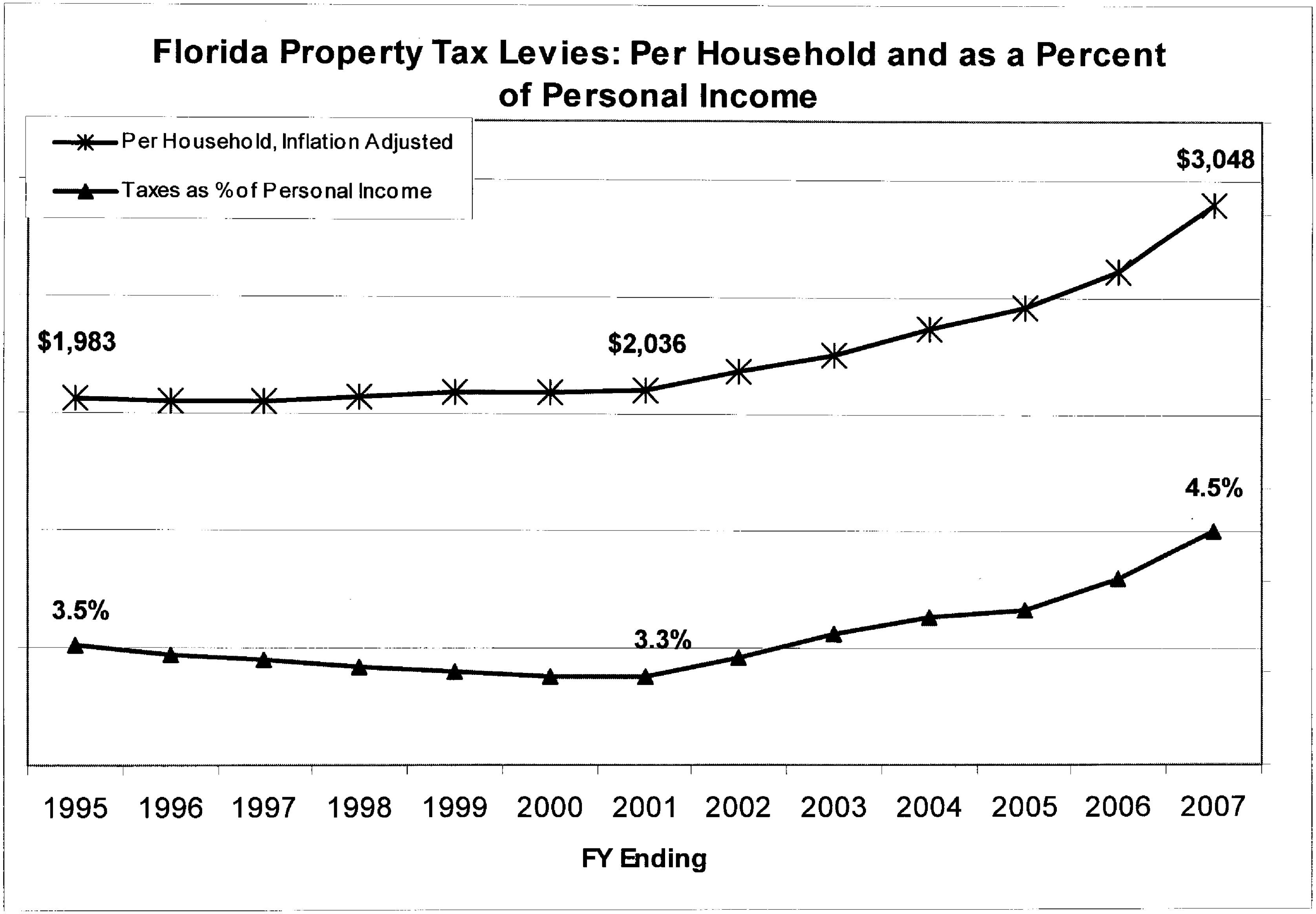
- **EQUITY**—Florida's property tax system creates and sustains significant inequities among taxpayers.

- **THE "LOCK-IN" EFFECT**—Long-time permanent resident homeowners are finding it difficult or cost prohibitive to move to another home within Florida.

Affordability

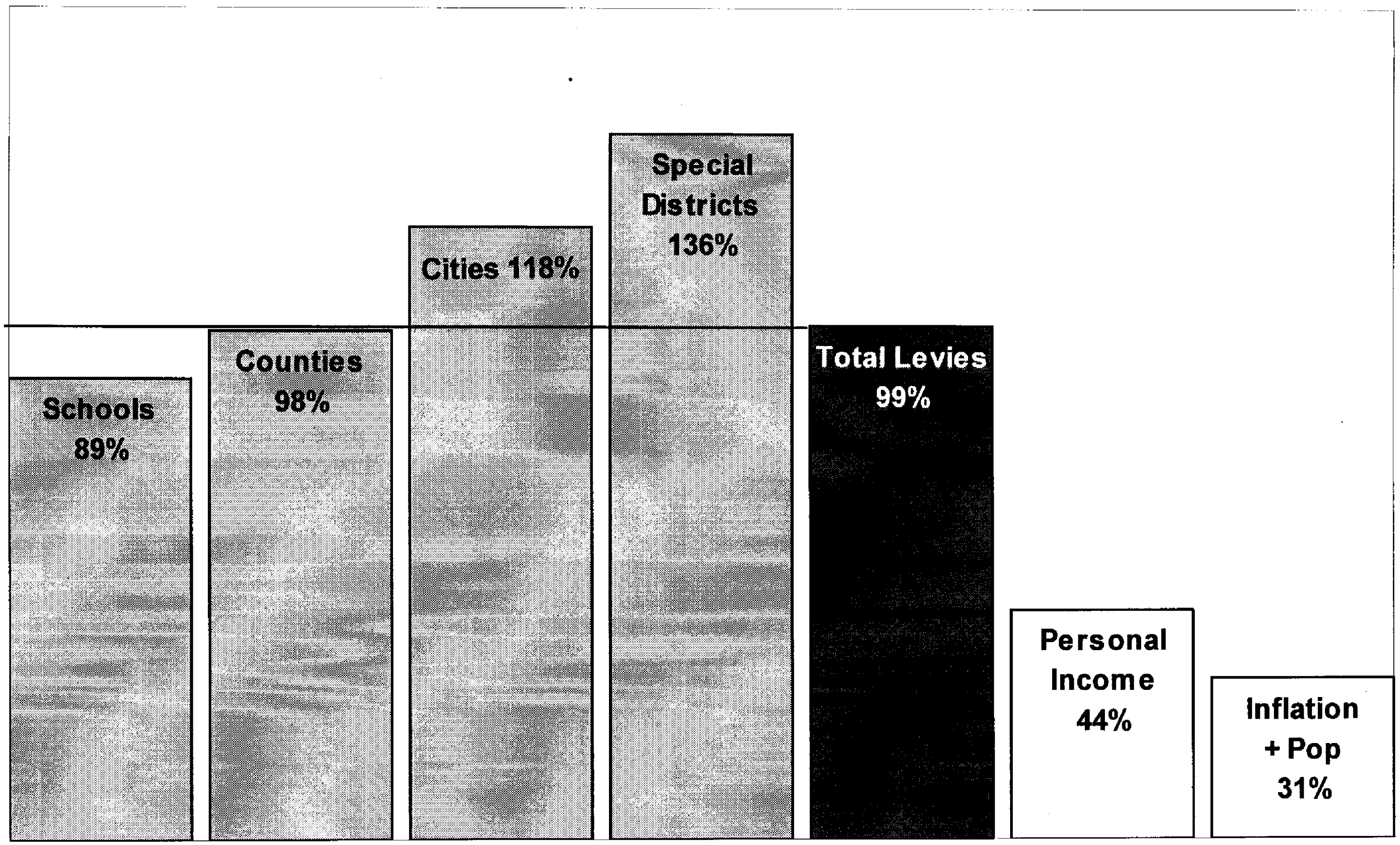

Florida Property Taxes Levied
Tax Levies
Annual % Change
$ in Billions
35
30
25
20
15
10
5
0
$11.2
$15.3
$30.5
4.0%
5.2%
4.8%
5.8%
4.9%
7.0%
9.0%
9.2%
11.6%
10.5%
14.7%
18.5%
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending


Florida Property Tax Levies by Government Type
Growth Rates (12 yrs):
Schools 144%
Counties 173%
Cities 236%
Spec Dists 230%
$12.3
$11.5
$6.5
$5.0
$5.8
$4.1
$4.2
$1.9
$1.2
$2.6
$0.8
$1.1
14
12
10
8
6
4
2
0
$ in Billions
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending
Counties
Schools
Cities
Spec Dists



Florida Property Tax Levies: Per Household and as a Percent of Personal Income
Per Household, Inflation Adjusted
Taxes as % of Personal Income
$1,983
$2,036
$3,048
3.5%
3.3%
4.5%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
FY Ending

Florida Property Tax Levies
Cumulative Growth Rates: FY 2001 - FY 2007

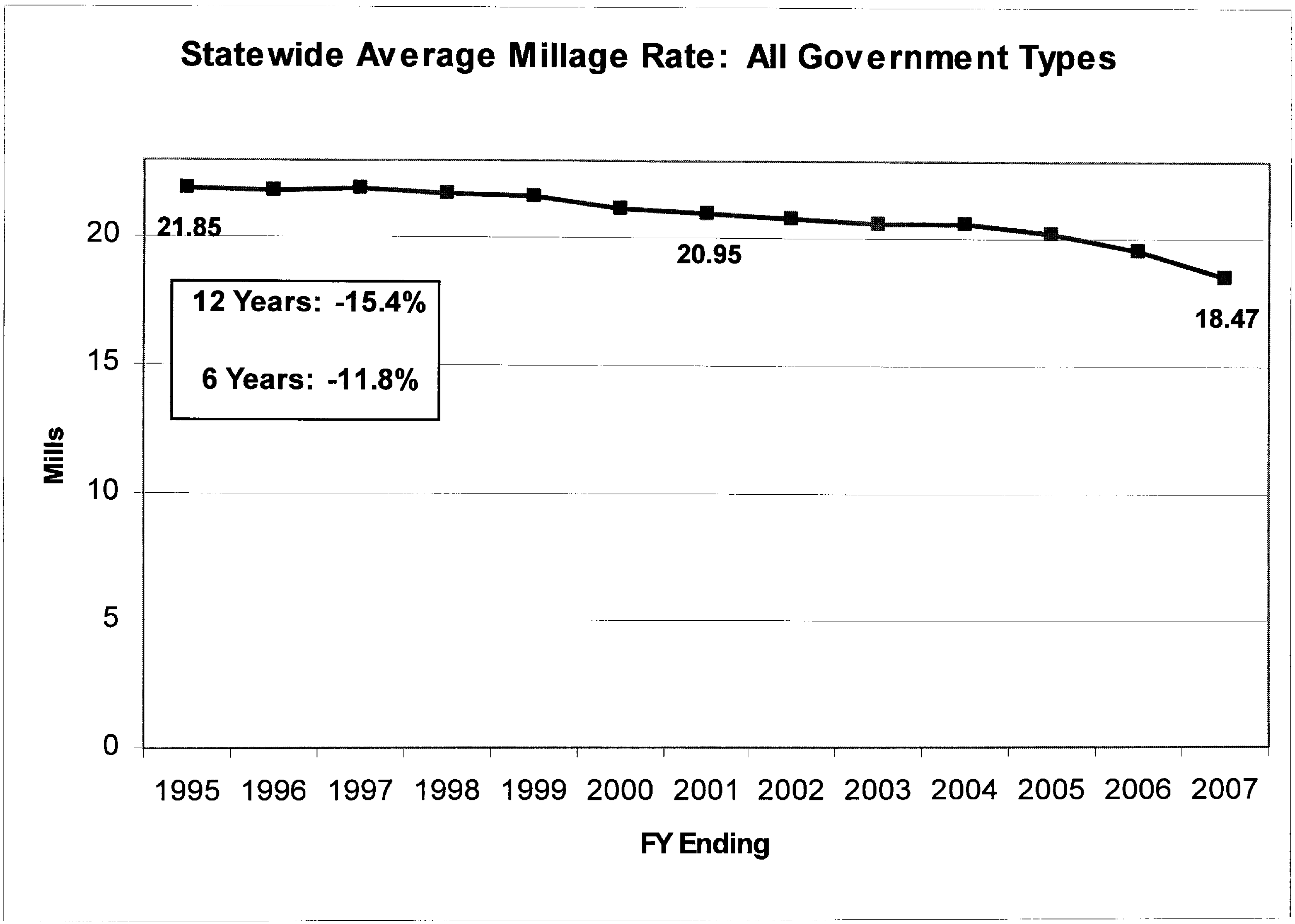


Affordability Concerns Reflect the Combination of Two Factors:

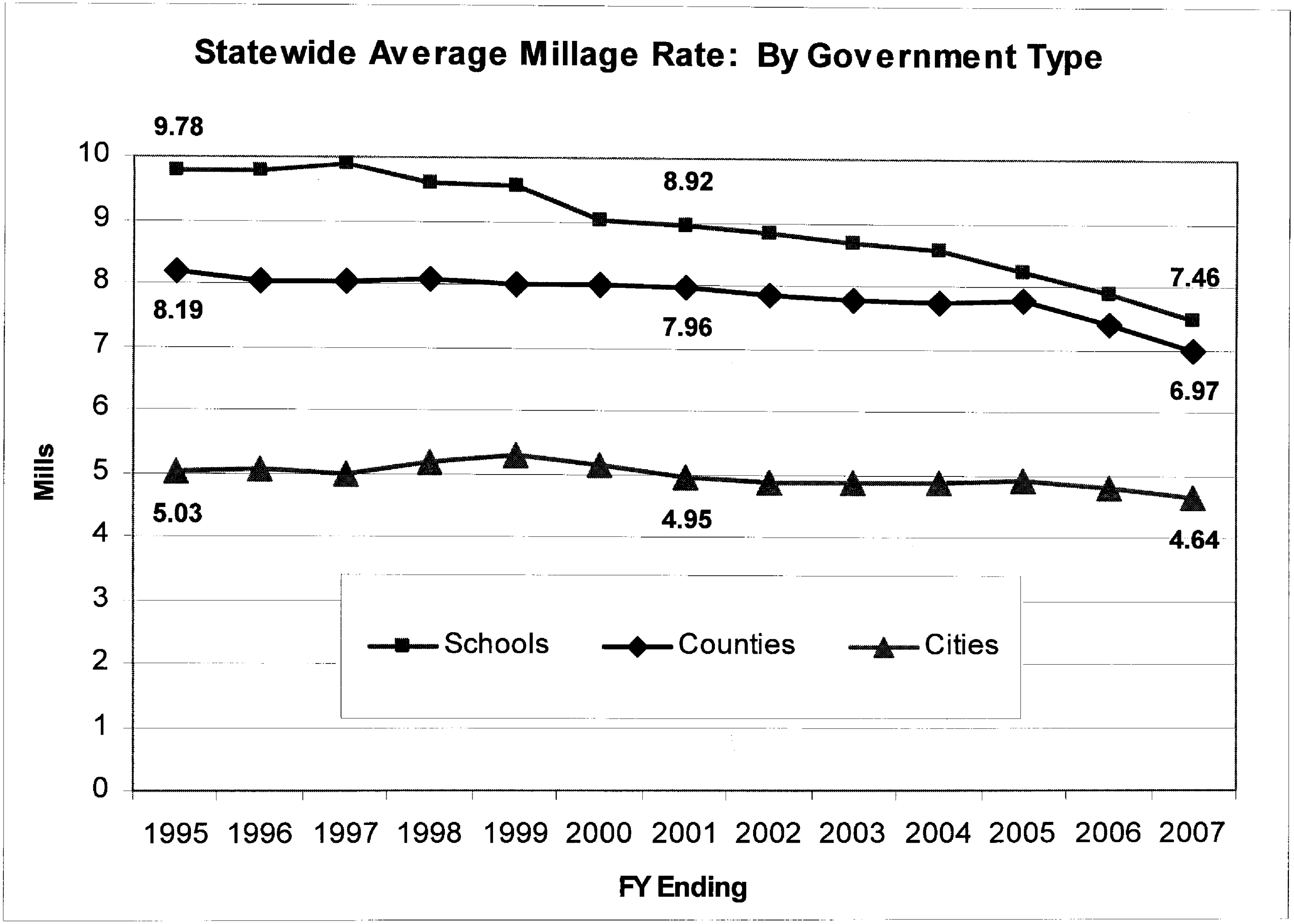
- Rapid assessment (valuation) increases

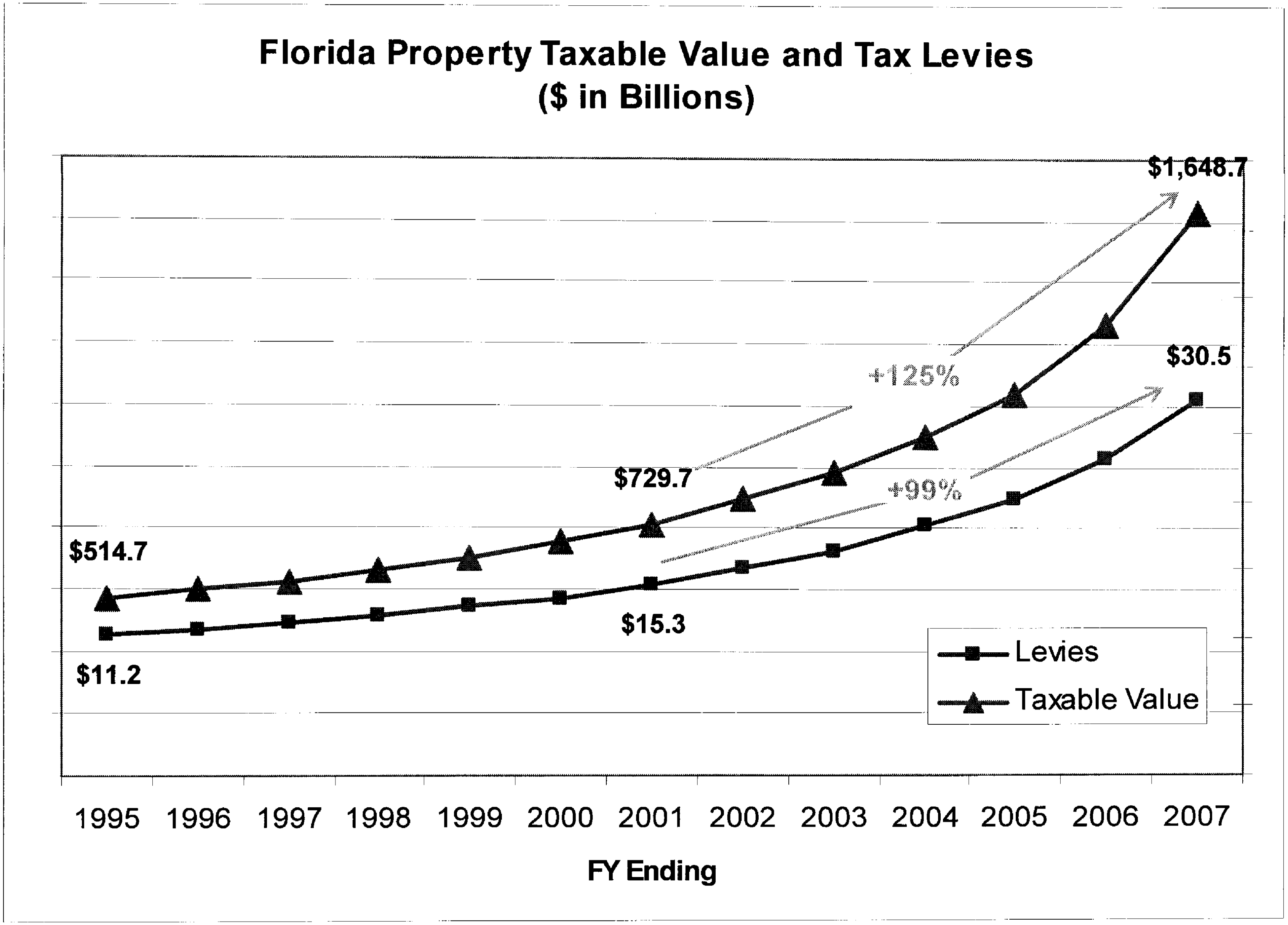
Per Parcel Taxable Value Increases	FY 2001 to 2007
Non-Homestead Residential	101%
Commercial/Industrial	61%
Florida Income Per Household	25%
Homestead Growth Factor w/ Save Our Homes	16%

- Relatively small tax rate reductions



Statewide Average Millage Rate: All Government Types
Mills
20
15
10
5
0
21.85
20.95
18.47
12 Years: -15.4%
6 Years: -11.8%
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending

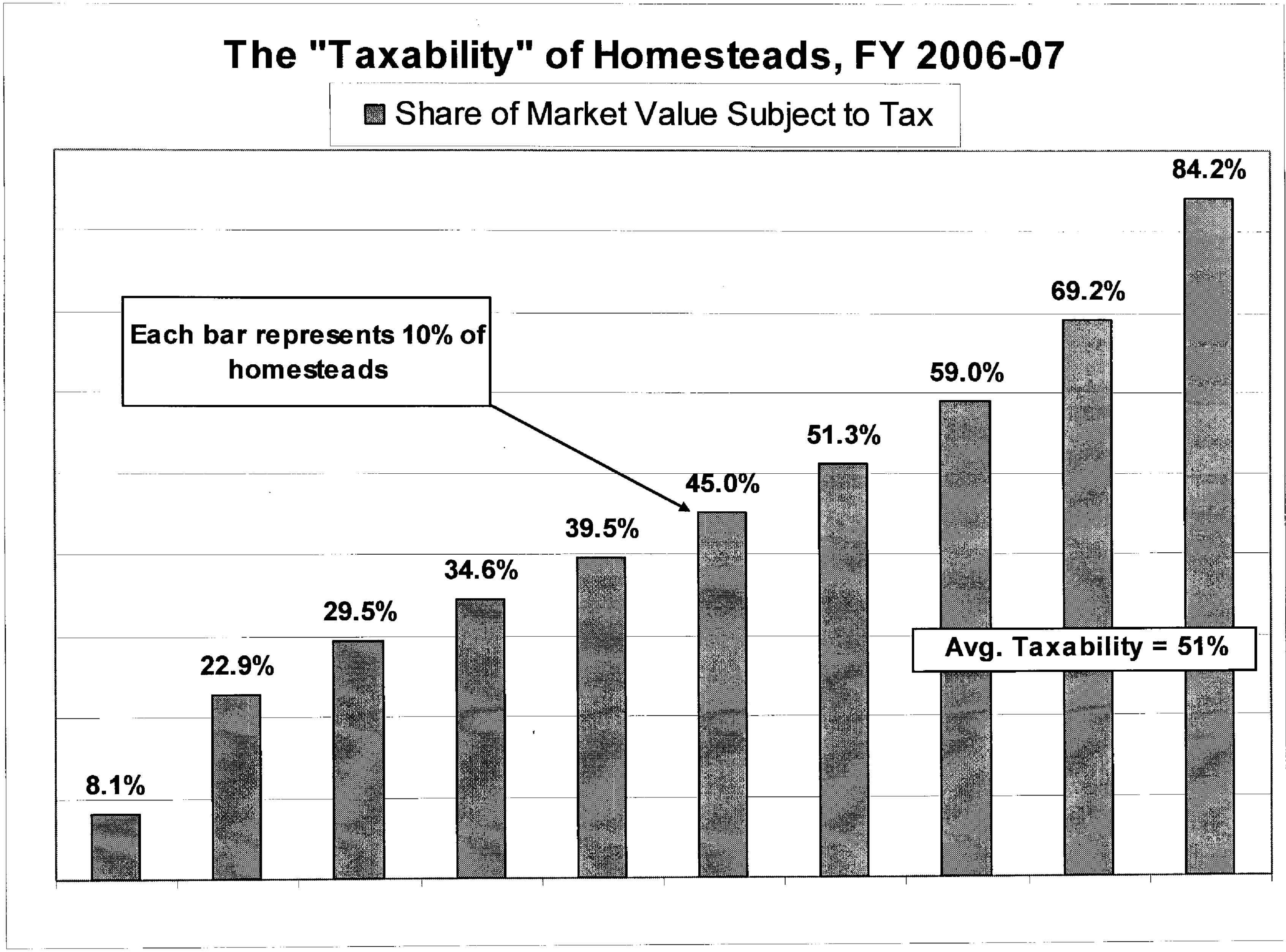

Statewide Average Millage Rate: By Government Type
9.78
8.92
7.46
8.19
7.96
6.97
5.03
4.95
4.64
10
9
8
7
6
5
4
3
2
1
0
Mills
Schools
Counties
Cities
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
FY Ending


Florida Property Taxable Value and Tax Levies
($ in Billions)
$1,648.7
$30.5
+125%
+99%
$729.7
$514.7
$15.3
$11.2
Levies
Taxable Value
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
FY Ending

Equity

Equity Issues

- Inequities among homestead properties.
- Inequities and tax shifting from homestead to non-homestead properties.


The "Taxability" of Homesteads, FY 2006-07
Share of Market Value Subject to Tax
Each bar represents 10% of homesteads
8.1%
22.9%
29.5%
34.6%
39.5%
45.0%
51.3%
59.0%
69.2%
84.2%
Avg. Taxability = 51%

Tax Base Shares:
With and Without Save Our Homes, FY 2006-07

	Without	With	% Diff.
Residential--Homestead	46%	33%	-29%
Residential--Non-homestead	28%	35%	25%
Residential--Vacant	5%	7%	25%
Commercial/Industrial	14%	17%	25%
Other Real Property	2%	2%	25%
Tangible Personal Prop and Centrally Assessed	5%	6%	25%

Revenue Neutral Tax Rates, FY 2006-07

Statewide Levies (bil $)	30.5	30.5	0%
Statewide Millage	14.8	18.5	25%

The “Lock-In” Effect

Save Our Homes benefits are lost when home ownership changes

- Average Save Our Homes "differential" = $92,058 (2006-07)
  - $1,700 tax savings at the average statewide tax rate.

- Median Save Our Homes differential = $64,930
  - a $1,200 tax savings.

Synopsis of Proposed Property Tax Reforms

Florida House of Representatives
Property Tax Summit

February 19, 2007

Principles to Remember

- There are **many possible approaches** to solving the issues raised by taxpayers.
- **Solving one problem may worsen another**, so attention to interactions will be important in fashioning an overall solution.

Options to Improve Affordability

- Assess non-homestead property based on **current use only**, instead of true market value.
- **Cap growth rates** for non-homestead properties.
- **Cap spending/revenues** for individual local governments.
- Assess property using a **five-year moving average**.

Options to Improve Affordability

- Improve budgetary **discipline from taxpayers**.
- Increase the **homestead exemption**.
- **Replace the property tax** with an alternative revenue source.

Options to Improve Equity

- **Eliminate homestead-related tax preferences** such as the homestead exemption and the Save Our Homes assessment limitation.
- **Increase** the Save Our Homes **growth caps.**
- **Replace the property tax** with an alternative revenue source.

Options to Alleviate the Lock-In Effect

- **Eliminate** Save Our Homes.
- **Replace the property tax** with an alternative revenue source.
- **Portability**—Allow homeowners to take their Save Our Homes benefits with them when they relocate within Florida.

Portability

- **Portability of any previously accumulated differential** (that is, the amount of the reduced assessment related to the Save Our Homes protection) from a prior homestead to a new homestead.
- Under pure portability, the "ported" amount is **subtracted from the new homestead's just value** to determine the new assessed value, with no limitation on resulting assessed value.
- Most of the proposals contemplate that the differential can be ported **anywhere in the state** (i.e. across taxing districts' geographic boundaries).

Findings Related to Portability

- Adoption of portability will **further reduce tax rolls** below the levels they would otherwise have attained.

- Full or 'pure' portability, if implemented with the 2008 roll, would reduce the ad valorem tax base by $13.6 billion in the first year. This reduction in taxable value would grow to $65.0 billion in the fifth year. At the 2005 average weighted millage of 19.6 mills, these tax base reductions would amount to reduced revenues ranging from **$267 million in 2008 to $1.3 billion in 2012**, if millage rates were held constant.

- In operation, portability is merely an extension of Save Our Homes. Because the differential can be transferred from one home to another, portability has the practical effect of **intensifying all of the previous findings related to Save Our Homes**. Both the magnitude and duration of the effects are increased.

Variants of Portability

- Only available within qualifying counties (local option: referendum or super majority vote of governing body).
- Capped amount (income-based).
- Capped amount (either a dollar ceiling or a specified percentage of the prior differential)
- Age-limited (senior citizens).
- Directional limit (upsize or downsize only).
- One-time availability.
- Alternative definitions of portability, the most common of which uses the sales price minus the prior homestead's assessed value, the dollar value of which is then subtracted from the purchase price of the new home to determine the new assessed level.

Findings Based on Hellerstein Legal Analysis

- While most of the proposed alternatives to the current property tax structure in Florida present no significant federal constitutional issues, **portability may provide opportunities for legal challenge** based on the Commerce Clause, the "Interstate" Privileges and Immunities Clause, and the Right to Travel.

- The **extension of assessment limitations** to non-homesteaded properties may generate Commerce Clause objections, but their strength is currently untested.

PROPOSAL	*SIGNIFICANT CONSTITUTIONAL ISSUES (Legal Basis for Challenge)*				*DESCRIPTION & SPECIAL ISSUES*
	Equal Protection Clause	***Commerce Clause***	***"Interstate" Privileges and Immunities Clause***	***Right to Travel***	
Elimination of Save Our Homes (effect on current beneficiaries)	None	None	None	None	Grandfathering that continues the current provisions for a select group would have greater vulnerability than a grandfather coupled with a freeze.
Extension of Assessment Limitations to Non-Homesteaded Properties	None	Unclear	None	None	U.S. Supreme Court granted certiorari in R.H. Macy case which addressed this issue, but taxpayer withdrew its petition.
Increase in the Current Homestead Exemption	None	None	None	None	
Modification of the Existing Save Our Homes Provision	None	None	None	None	
Portability	None	**EXIST**[1]	**EXIST, BUT WEAK**[2]	**EXIST, AND STRONG**[3]	1. Portability discriminates against interstate commerce (burden is of greater magnitude than SOH). 2. Portability discriminates because only benefits residents (same as SOH). 3. Portability deprives newly arrived residents of the right to be treated equally in their new State of residence (greater magnitude).

Remedies

- If any of the proposed alternatives is adopted and later held to be unconstitutional the discrimination or burden would have to be:
  - Eliminated on a prospective basis, and
  - Remedied through meaningful backward-looking relief on a retrospective basis.
  - Meaningful backward-looking relief for a discriminatory tax may entail either a refund or any other remedy that cures the discrimination, *e.g.*, taxing the previously favored class on a retroactive basis.

Florida
TaxWatch

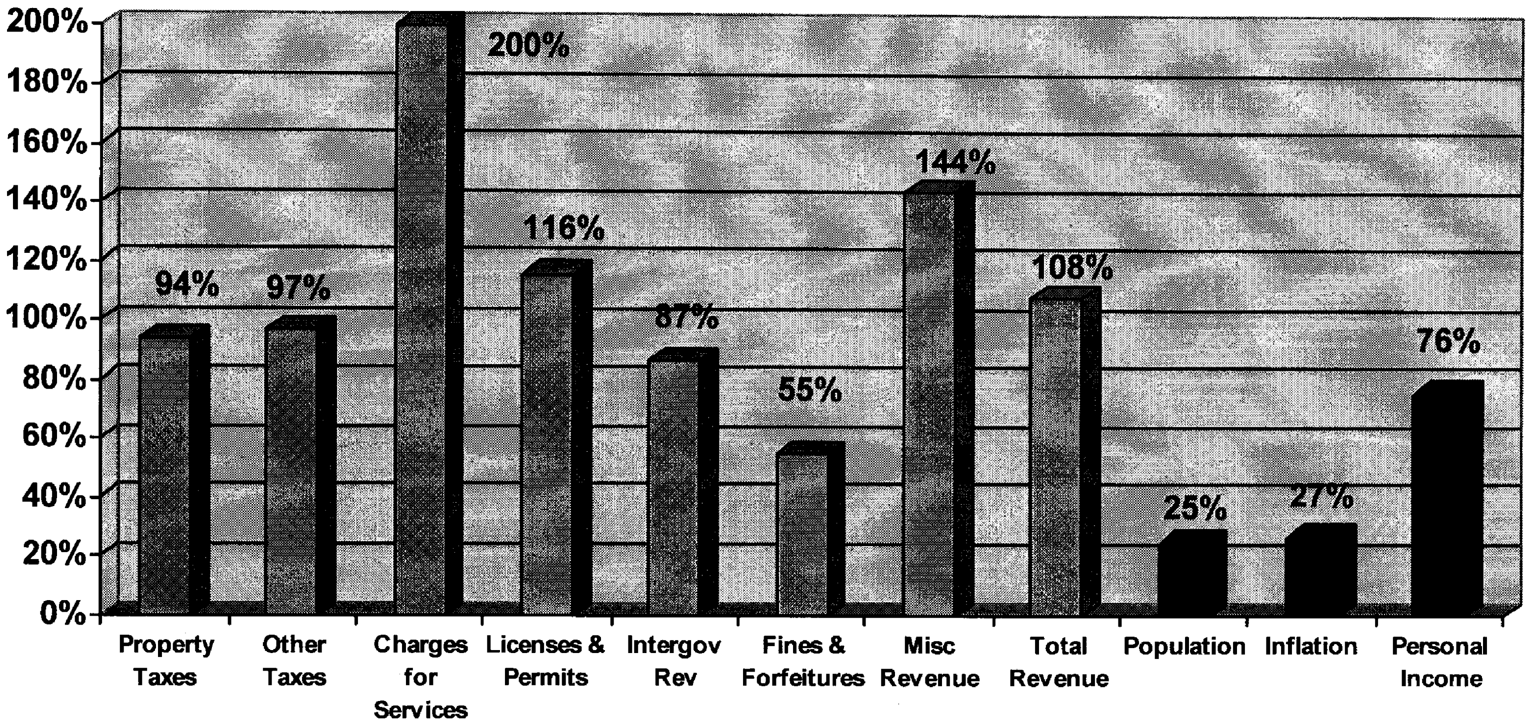
Current Property Tax Problems Arise From Two Main Factors:

- <u>Local government spending</u> that has been rising largely unchecked, growing faster than the economy, inflation and Floridians' ability to pay for it, and
- <u>Save Our Homes</u> has created numerous inequities and a property tax system that is unsustainable.

Save Our Homes has:

- Shifted billions of dollar in taxes to businesses, renters, people who move, new homes and anyone who owns property not covered by the homestead exemption,
- Created unequal taxes on similar houses,
- Made people feel they cannot afford to move,
- Impacted affordable housing by increasing rents and taxes on new homes, and
- Kept many homeowners from being involved in local tax and budget decisions, which has likely had an impact on rising spending.

Rapidly Rising Growth in Local Government Revenues
FY 1994 - FY 2004
Cities, Counties, and Special Districts



Source: Florida TaxWatch, using data from the Florida Legislative Committee on Intergovernmental Relations, December 2006

To Truly Reform Property Taxes, Florida Should:

1) **Repeal Save Our Homes**, allowing homeowners to keep their reduced assessment, so savings would be retained. The amount of the differential would not change. (For example), if a home were assessed at $60,000 below fair market through Save Our Homes, future assessments would be at full market value minus $60,000.

2) Limit Annual Millage Rates:

Require that local governments adopt a re-defined rolled-back rate (one that allows for inflation)

This would provide a direct property tax limitation for all property owners in Florida

Supermajority vote override

3) <u>Local Revenue Cap</u>

Institute a cap on the growth of all local government revenue

Limited to either the growth of population and inflation or personal income

Supermajority vote override

4) Portability

Allow one-time, statewide portability

However, legal analysis raises serious constitutional issues with portability

5) Consider Current Use When Assessing Commercial Property

"Highest and best use" has created unaffordable tax liabilities for many small businesses, such as hotels and apartments, and ones near the waterfront.

However, care must be taken to limit abuses of a current use standard. The current use should be an on-going, legitimate concern.

6) Tangible Personal Property Exemption

Create a tangible personal property exemption for business properties (e.g., $25,000)

Helps small businesses cope with the large property tax increases they have experienced

Complying with the law creates a lot of work for both the public and private sector with (in the case of small businesses) relatively little return

Now is the Time to Replace Save Our Homes with a System That:

- Protects taxpayers' current savings,

- Keeps inequities from getting worse and begins to equalize them, and

- Holds taxes down for all property owners in the future.

Other Proposals

Portability

The issue of people “locked-in their homes” is a real problem.

However, there appears to be serious constitutional concerns with portability.

Portability would exacerbate the problem of shifting taxes to non-homestead and new homestead property.

Expand Save Our Homes To All Property

This would help reduce the future tax shift. *However*, many of the problems created by SOH within homestead property would pop-up among non-homestead property.

The burden for increasing property taxes would be borne by new construction (both homes and commercial property).

Also, by limiting the increase in assessments for all property, there would be no effective limit on taxes for anyone.

Increase the Save Our Home Cap Percentage

Would help limit, or even reduce, the inequities of SOH.

In years when actual value grew slower than the cap, the disparities would be reduced.

A higher cap can allow the assessed value of SOH protected property to "catch-up" to its actual value.

Increases the chances of a taxpayer's assessment going up, while their just value fell.

Increase the Homestead Exemption

Should not be increased as long as Save Our Homes exists in its present form.

It does not address the major current property tax problem and, in fact, would exacerbate it.

Create a Cap That Stays With a Property and Is Not Affected By a Change in Ownership

Would eliminate the portability problem (if constitutional)

If applied to homestead property, would accelerated the tax shift to non-homestead (and new homestead) properties

If applied to all properties, the burden for increased property taxes would be borne almost entirely by new construction

Replace Property Taxes With Sales Taxes

Would require at least 8 cents - total sales tax rate of 14% to 15.5%

More than doubling the sales tax would:

- create competitive problems;
- greatly increase taxes for anyone who doesn't currently pay property taxes;
- make Florida more expensive (and less desirable) for tourists; and
- create some major enforcement issues.

Also, sales taxes tend to be regressive, while property taxes are proportional.

Florida
TaxWatch

Expert Comments
Side by Side

Proposed Solution	Dr. Randall Holcombe, James Madison Institute & Florida State University	Iris J. Lav, Center on Budget and Policy Priorities	Dominic Calabro, Florida TaxWatch
Make Save Our Homes Protections Portable (Generally)	Oppose. SOH creates inequities, and portability would only make the problem worse.	Oppose. Accelerates inequities and reduces the tax base for local governments.	Oppose, generally. Presents constitutional concerns & exacerbates the current problem.
Limit Save Our Homes Portability by Geography	Oppose. SOH creates inequities, and portability would only make the problem worse.	Oppose. Could exacerbate inequities between county tax bases.	Oppose, generally. Presents constitutional concerns & exacerbates the current problem.
Limit Save Our Homes Portability to One Move	Oppose. SOH creates inequities, and portability would only make the problem worse.	Oppose. Accelerates inequities and reduces the tax base for local governments.	Support, generally. Favorable only if part of greater reform package.
Limit Save Our Homes Portability by Differential Value	Oppose. SOH creates inequities, and portability would only make the problem worse.	Oppose. Accelerates inequities and reduces the tax base for local governments.	Oppose, generally. Presents constitutional concerns & exacerbates the current problem.
Cap Non-Homestead Assessments	Support. Cap growth of all assessments to instill fairness, with possible exception for change in use.	Oppose. Non-homestead properties should not receive protections equal to homestead properties. Would limit local government services.	Neutral. Would reduce shifting of tax burdens among different classes of property but might induce higher millage rates.
Increase Save Our Homes Cap	Oppose, generally. May lessen the problems with SOH, but with little advantage.	Oppose, generally. Would alleviate, but not solve, inequities.	Neutral. Would limit or reduce inequities of SOH, but will make assessments more likely to increase.
Phase-Out Save Our Homes	Support, generally. Good way to eliminate SOH if coupled with other reforms.	Support, generally. "Grandfathering" should only be allowed only if no other reforms are enacted. Is better to abolish SOH entirely with other reforms.	Support.

Proposed Solution	Dr. Randall Holcombe, James Madison Institute & Florida State University	Iris J. Lav, Center on Budget and Policy Priorities	Dominic Calabro, Florida TaxWatch
Replace Save Our Homes w/Split Rate for Homestead and Non-Homestead	Neutral. Does not address current problems, though perhaps workable if other reforms occur.	Support. Offers savings to all homestead properties and eliminates lock-in effect. Must include "circuit-breaker" protection (see below).	No Comment
Replace Save Our Homes with Increased Homestead Exemption	Neutral. Does not address current problems and impacts counties very differently.	Support. Offers savings to all homestead properties and eliminates lock-in effect. Must include "circuit-breaker" protection (see below).	No Comment
Replace Save Our Homes with Reduced Proportion of Just Value for Homestead	Neutral. No objection, but does not sufficiently address current problems.	Support. Offers savings to all homestead properties and eliminates lock-in effect. Must include "circuit-breaker" protection (see below).	No Comment
Cap Growth for Individual Properties	Support.	Oppose. Unduly favors old properties over new construction and limits revenue.	Oppose, generally. Could create a "Super SOH" or shift burden to new construction. However, would eliminate portability issue.
Increase the Homestead Exemption	Neutral. Does not sufficiently address current problems because of its disparate statewide impact.	Support. Must only occur with end to SOH, creation of "circuit-breaker," and consideration of impacts on low-revenue counties.	Oppose. If SOH continues, this would exacerbate the problem.
Local Option Homestead Exemption Increase	Neutral. Does not sufficiently address current problems because of its disparate statewide impact.	Oppose, generally. Would create inequities among taxpayers in different jurisdictions.	Oppose. If SOH continues, this would exacerbate the problem.

Proposed Solution	Dr. Randall Holcombe, James Madison Institute & Florida State University	Iris J. Lav, Center on Budget and Policy Priorities	Dominic Calabro, Florida TaxWatch
Expand Homestead Exemption Eligibility	Neutral. Does not sufficiently address current problems because of its disparate statewide impact.	Oppose. Only homestead properties should enjoy additional tax protections.	
Tangible Personal Property Exemption	Support. Good policy to support business, though this does not address current problems.	No comment	Support. Helps offset recent property tax hikes and reduces administrative burden.
Cap Tax Growth for Property Tax-Assessing Authorities	Support. Require voter approval for exceeding the cap.	Oppose. Locks-in inequities among jurisdictions and may force social service cuts.	Support. Limit growth to either population + inflation or personal income. Include supermajority override by governing body.
Cut Tax Rates for Property Tax-Assessing Authorities	Support, generally. Is a temporary solution to larger problem, and provides more benefit to non-homestead properties.	Oppose. Would improperly undermine local social services.	Support. Include a supermajority override the governing body.
Assessments Based on Current Use	Neutral. Does not address current problems, and requires careful policy balancing.	Support, generally. Would protect taxpayers, but must prevent abuse.	Support. Ensure that abuse does not occur.
Assessments Based on a Moving Average	Neutral. Provides property owners more notice, but postpones rather than solves the problem of rising assessed values.	No comment	No Comment
Property Tax Replacement	Neutral. Possibly a good idea, but large increases of the sales tax carry risk.	Oppose, generally. Sales taxes are regressive and too reliant on economic cycles. It is better to diversify tax sources, though broadening the sales tax base may work.	Oppose. The increased sales tax would be too great a burden and would provide diminishing returns.

Proposed Solution	Dr. Randall Holcombe, James Madison Institute & Florida State University	Iris J. Lav, Center on Budget and Policy Priorities	Dominic Calabro, Florida TaxWatch
TRIM Notice Improvements	Neutral. Taxpayers already receive useful notice, but other mechanisms like voter approval of tax increases would be more effective.	No comment	No Comment
Supermajority for Tax Increases	Support, generally. Even a supermajority may not meaningfully protect against increases.	Oppose. Gives too much power to minority voting blocks.	No Comment
State-Financed Reimbursement for Excessive Property Taxes	Oppose. Encourages house-rich, cash-poor Floridians. Income is not a good benchmark for property taxes.	Support. In concert with other changes, this "targets" those taxpayers most overburdened by taxes.	No Comment

Expert Comments
In Full

EXPERT COMMENTS

DR. RANDALL HOLCOMBE

JAMES MADISON INSTITUTE & FLORIDA STATE UNIVERSITY

Proposed Solutions for the Property Tax Crisis

Save Our Homes and Other Assessment Limitations

1) Make Save Our Homes Protections Portable

Allow the "Save Our Homes" differential to be "portable." Property owners would be able to transfer the differential protection they enjoy on their current homestead property to a new homestead property when they move.

Thus, a homeowner with a $100,000 differential on Homestead A could move to Homestead B and immediately apply a $100,000 protection to their new assessed value on Homestead B.

2) Limit Save Our Homes Portability by Geography

Allow Save Our Homes portability only within a county, rather than statewide.

3) Limit Save Our Homes Portability to One Move

Allow Save Our Homes portability for only one relocation.

4) Limit Save Our Homes Portability by Differential Value

Limit the total amount of Save Our Homes protection that can be transferred. For example, assume a portable differential cap of $100,000. If Homestead A has accumulated $200,000 in protected value under Save Our Homes, the homeowner could transport half of that value ($100,000) and apply it to Homestead B.

One of the problems we have is that Save Our Homes has created substantial inequities, not only between homestead and non-homestead property, but among different homestead properties (depending on how long the owner has owned the property). Save Our Homes is part of the problem, and making Save Our Homes protections portable increases that problem. Therefore, I am opposed to these first four proposed solutions, because they would make an existing problem worse.

5) Cap Non-Homestead Assessments

Allow Save Our Homes-style protections for commercial properties or non-homestead residential properties.

I favor capping the growth of all assessments, simply as a matter of fairness. People have a right to expect that their tax liabilities will remain relatively stable, and such a cap would ensure such stability. We might consider some provision that might apply to a change in the use of a property. For example, if someone buys a run-down warehouse and converts it to a restaurant or retail store, even though it is the same building perhaps there should be a provision for re-evaluating the assessment.

6) Change Save Our Homes Cap

> Increase assessed value percentage changes allowed under Save Our Homes (e.g., from 3% to 5%, 10%, etc.) in order to lessen the inequities that have developed among similarly situated properties.

If there is a problem with the Save Our Homes cap (and I think there is), this proposal might lessen the problem, but the problem would remain. I see little advantage to this type of change.

7) Phase-Out Save Our Homes

> "Grandfather-in" current beneficiaries of Save Our Homes protections but prohibit the future growth of property values protected by Save Our Homes. Over time, Save Our Homes would be eliminated from the Florida property tax system.

This seems like a good way to eliminate Save Our Homes, which I do see as a problem. At the same time, Save Our Homes has protected homestead property from the excessive property tax increases others have had to bear. So this would have to go hand-in-hand with some other method of protecting taxpayers from excessive tax increases, such as a cap on the increase in all assessed values.

8) Options for Replacement of Save Our Homes

> a) Replace Save Our Homes with a split rate roll that taxes homestead property at a lower rate than non-homestead or commercial property.

I have no objection to taxing homestead property at a different rate, but at the same time, this does not address any of the current problems. Perhaps as a way to try to buy the support of homesteaders for other reforms, this might be a part of a package of reforms.

> b) Replace Save Our Homes with an increased Homestead Exemption

This would affect different taxpayers differently, and would have very different effects in different counties, depending on the average value of homestead property. I don't think increasing the homestead exemption solves anything.

> c) Replace Save Our Homes with a specified, reduced proportion of just value for homestead properties.

What is the difference between this and proposal (a) above? Aren't they just different ways of creating a lower rate for homestead property? I would not object to this, although I don't see that it directly addresses any current problems.

9) Cap Growth for Individual Properties

> Create a permanent cap on annual valuation increases that stays with a property and is not affected by a change in ownership.

This proposal appears to directly address one of the problems with the property tax. I would strongly support this proposal. It leaves open the question of how the initial valuation is determined, however. For example, if there is a big run-up in real estate values, as there has been in the past five years, two nearly identical houses, one built five years prior to the other, could have very different assessed values and property tax liabilities, creating an inequity similar to what we see in Save Our Homes today. One way to address this would be to have the assessment on new construction be determined by setting it equal to comparable existing property.

Homestead Exemption

10) Increase the Homestead Exemption

> Increase the Homestead Exemption from the current $25,000 to a higher protection (e.g., to $50,000).
>
> An exception for school districts to maintain the original $25,000 exemption may be considered.

11) Local Option Homestead Exemption Increase

> Allow local governments the option to increase the current homestead exemption up to a certain amount (e.g. anywhere between $25,000 and $50,000).
>
> An exception for school districts to maintain the original $25,000 exemption may be considered.

12) Expand Homestead Exemption Eligibility

> Expand the current definition of homestead properties to include other types of properties to give more property owners tax protection.

The homestead exemption is a tax break for homesteaders, but one that has an uneven impact. For example, it is not much of a break in Dade County, where real estate values are high, but for some panhandle counties it takes a huge chunk of real estate off the tax rolls. I don't see a role for the homestead exemption in the current set of problems. Outside of the fact that it cuts some people's taxes, how would expanding the homestead exemption in any of these three ways address the current issues?

13) Tangible Personal Property Exemption

> Create a tangible personal property exemption for business properties (e.g., $25,000).

This tax reduction for business strikes me as good policy, so I would support it (and would support repealing this tax altogether). That said, I don't see how it addresses the current problem with the property tax.

Limit Local Tax & Spending Growth

14) Cap Tax Growth for Property Tax-Assessing Authorities

> Limit the amount of increased revenue or spending a local government can collect from one year to the next. This may be accomplished in a variety of ways, including limiting growth to inflation, the consumer price index, growth in personal income, or some combination thereof. This may also include an option to let the voters approve tax increases upon a showing of public necessity, or to require a supermajority vote of the taxing authority to exceed the cap.
>
> Alternatively, cap the revenue or spending growth of all property-tax assessing authorities except school districts.

I strongly support such a measure. There are two components here that need to be appreciated separately. The first is the cap, which keeps taxes from rising. The second is the mechanism for exceeding the cap, and here I strongly support a requirement of voter approval, embodying the principle of "no taxation without representation." The key element is voter approval, and the existence of voter-approved local option sales taxes in 60 of Florida's counties shows that voters will approve taxes when they believe the expenditures are worthwhile.

There is a question of what the cap should be, but focusing on voter approval, why shouldn't voters have a say on all taxes, including existing taxes? (In fact, in 37 counties, local option sales taxes have an expiration date, so in those cases, tax rates will fall when the taxes expire, unless voters approve a renewal.) Until 1968, school districts had to have their millage levies approved every two years, and that system appeared to work well.

I like this idea, and one way to look at it is to say that voters have to approve taxes, but the "cap" defines a level of taxation that would be permitted without voter approval.

15) Cut Tax Rates for Property Tax-Assessing Authorities

Require all local taxing authorities except school districts to cut tax rates. For example, require a reduction in millage rates to the "roll-back-rate" for the 2000-2001 year and adjust for CPI since that time. This may also include an option to let the voters approve tax increases upon a showing of public necessity, or to require a supermajority vote of the taxing authority to exceed the cap.

This is a temporary solution to a longer-run problem. Because homestead property has been protected from tax increases by Save Our Homes, such a roll-back would make more sense for non-homestead properties, to address the growing inequities since 2001.

Assessment Method Alternatives

16) Assessments Based on Current Use

Require tax assessments for business properties to be based only on the current use of the property, rather than the "highest and best" use. For example, a beach-front restaurant occupying land that might otherwise be used for a high-rise condominium would be taxed only on the lower, present value. Agricultural land that might otherwise be used for a large-scale housing development would likewise be protected from being taxed at a higher value.

I don't see that this is directly related to current issues, although it is worth considering. This depends on our policy goals. Do we want to force farmers to sell out for development? Do we want to tax beachfront homeowners out so we can build condos?

17) Assessments Based on a Moving Average

Require tax assessments for the present year to be calculated based on an average of the assessed value in several previous years (e.g., a five-year period).

While I don't see any reason to object to this – at least it will put property owners on notice that their taxes will be rising in a few years – it seems to postpone but not solve the underlying problem of rising assessed values.

Miscellaneous Ideas

18) Property Tax Replacement

Replace the property tax with an alternative source of funding dedicated to local governments. For example, the sales tax could be increased to offset the property tax in whole or in part.

This is an interesting idea, but the increase we would need in the sales tax (or any other tax to replace the property tax) would be so great that we would be moving into uncharted territory.

19) TRIM Notice Improvements

> Improve the availability of information in "Truth in Millage" notices to better educate taxpayers about local millage rates. Also, change the timing of TRIM notices to invite more participation in the rate setting process.

I don't see any downside in this, but taxpayers already get a good idea of how any combination of rate changes and assessed value changes will affect their tax payments when the notices arrive. Taxpayers need more protections than just notices, though. It's costly and time-consuming to challenge tax increases, either individually (my assessment is too high) or collectively (our community is being over-taxed). Taxpayers should feel confident that their governments will not impose dramatically higher taxes on them without having to become individually involved in objecting to them. Voter approval for tax increases before they take place is a better mechanism than better notification that the tax increases are coming.

20) Supermajority for Tax Increases

> Require governments to have a supermajority vote in order to approve any tax increase. This may apply to all levels of state, local, and special district governments, or only certain authorities. It could also apply to all taxes and assessments or target only certain taxes or assessments.

I would support this, but without much confidence that it would make a difference. I don't see many local officials saying they wish their own jurisdiction wasn't increasing taxes so rapidly. Also, with small numbers voting, a supermajority requirement may not affect how many votes are need to approve. For example, on a five-member city commission, both simple majority approval and a 60% majority would require 3 out of 5.

21) State-Financed Reimbursement for Excessive Property Taxes

> Enact a state-financed program that limits property taxes for homestead homeowners and renters to a specified percentage of income.

This would encourage house-rich, cash-poor Floridians. After retirement, when my income falls, I could use my savings to buy a big house on the beach and pay almost nothing in property taxes. For many reasons, income is not a good benchmark for determining whether property taxes are excessive.

EXPERT COMMENTS

IRIS J. LAV

CENTER ON BUDGET & POLICY PRIORITIES

Responses to "Proposed Solutions for the Property Tax Crisis"
Iris J. Lav, Deputy Director
Center on Budget and Policy Priorities
February 18, 2007

1) **Make Save Our Homes Portable**

Save Our Homes creates a number of inequities. Taxpayers with similar-value homes and similar incomes may pay very different property taxes. Counties and school districts with similar value homes may have different tax bases, depending on turnover of houses or amount of new construction. Moreover, SOH disadvantages young people buying a first home and newcomers to the state, making them pay higher taxes for similar homes than people who have owned their homes for a period of time. And SOH requires higher tax rates than would be the case without SOH, further raising the taxes of anyone who purchases a first home in the state. The longer SOH stays in place, the greater the divergence between "just value" and "taxable value" for homes covered by SOH.

Making SOH portable would allow people to hold on to their "right" to a lower assessment even when they move within the state, which would accelerate the degree to which these inequities persist and grow over time. It also would further reduce the tax base and potentially the revenue for local governments. According to the EDR interim study, portability would reduce the tax base by $13.6 billion in the first year and $65 billion by the fifth year.

2) **Limit Save Our Homes Portability by Geography**

Allowing Save Our Homes portability within a county but not statewide would leave in place a number of the inequities that SOH causes. Taxpayers with similar-value homes and similar incomes would continue to pay very different property taxes. If SOH were portable within a county, inequities between a given county's tax base compared to other counties' tax bases could be exacerbated. For example, if two counties had a similar total just value of property but in one county the value was mostly in existing homes — for which owners had been under SOH for a number of years — and in the other it was mostly from new construction, the counties would have very different tax bases. The one with mostly existing homes would have to levy a much higher tax rate to provide the same level of public services as the one with mostly new construction.

3) **Limit Save Our Homes Portability to One Move**

Save Our Homes creates a number of inequities. Taxpayers with similar-value homes and similar incomes may pay very different property taxes. Counties and school districts with similar value homes may have different tax bases, depending on turnover of houses or amount of new construction. Moreover, SOH disadvantages young people buying a first home and newcomers to the state, making them pay higher taxes for similar homes than people who have owned their homes for a period of time. And SOH requires higher tax rates than would be the case without SOH, further raising the taxes of anyone who purchases a first home in the state. The longer SOH stays in place, the greater the divergence between "just value" and "taxable value" for homes covered by SOH. Making SOH portable — even for just one move — would allow people to hold on to their "right" to a lower assessment when they move within the state, which would accelerate the degree to which these inequities persist and grow over time.

4) **Limit Save Our Homes Portability by Differential Value**

Save Our Homes creates a number of inequities. Taxpayers with similar-value homes and similar incomes may pay very different property taxes. Counties and school districts with similar value homes may have different tax bases, depending on turnover of houses or amount of new construction. Moreover, SOH disadvantages young people buying a first home and newcomers to the state, making them pay higher taxes for similar homes than people who have owned their homes for a period of time. And SOH requires higher tax rates than would be the case without SOH, further raising the taxes of anyone who purchases a first home in the state. The longer SOH stays in place, the greater the divergence between "just value" and "taxable value" for homes covered by SOH. Allowing any form of portability, even if limited to only a portion of the differential, exacerbates these problems.

5) **Cap Non-Homestead Assessments**

Applying SOH to commercial properties would re-create the inequities that now exist under SOH for individuals and apply them to businesses. The property tax a business would have to pay would depend on the length of time it has been in business. This could be viewed as just the opposite of the incentives one might want to provide. It arguably is newly-forming businesses that have difficulty paying fixed costs such as property taxes before they have begun to make a profit — yet these would be paying higher taxes both because they would not have the lowered their taxable value through SOH and because tax rates are higher than they would be in the absence of SOH.

It would not make much sense to apply SOH to non-homestead residential properties. People who can afford second homes can generally also afford to pay property taxes. A second home is far more of a discretionary expenditure than a homestead; it does not need a tax break. And property taxes on the full just value of second homes allows the state to "export" taxes, that is, have a portion of Florida taxes paid by people who reside in other states. Most states find this desirable.

Extending SOH to other types of property would lower the revenue available to local governments. Some local governments cannot just raise millage rates to compensate for the lower taxable value of property because they are nearing the rate caps. Others would face voter resistance to raising rates. Further extending SOH could make it difficult or impossible for these jurisdictions to provide adequate public services.

6) **Change Save Our Homes Cap**

Increasing the assessed value percentage changes allowed under the cap would improve SOH, in that the inequities it creates would be less glaring. Nevertheless, over time the inequities would continue to grow. It would be much better to replace SOH with a more equitable solution.

7) **Phase-Out Save Our Homes**

If the decision is made to eliminate or replace SOH, there is a question of how to do so. If SOH were simply to be eliminated and not replaced with alternative tax relief, it would make sense to phase it out gradually by "grandfathering" current beneficiaries and barring any additional growth in protected values. If, on the other hand, SOH is to be replaced by more desirable forms of property tax relief — such as a combination of an expanded homestead exemption and a circuit breaker — then it would be better to simply eliminate SOH and put the alternative relief into effect. Some combination of these two approaches might be possible.

8) **Options for Replacement of Save Our Homes**

Any of these three options would be preferable to SOH as a way to lower property taxes on homestead property. They would assure that all homestead property would receive a property tax break, regardless of how long the owner had been living in the property. And, since all homestead property would get the break, these options would eliminate the "lock-in" effect of SOH — making the relief in effect portable without creating large inequities. They would also hold down the portion of total property taxes paid by homestead property.

While all three options lower property taxes on homestead property relative to other kinds of property, they do not necessarily protect against rapid increases in assessment on any specific property. Moreover, moving from one system of property tax relief to another would inevitably create winners and losers. It would be important to use any of these approaches in conjunction with state-financed property tax relief for homestead property owners and resident renters for whom the property tax represents a particularly high burden.

In addition, using a combination of locally-provided relief through one of these three mechanisms and a state-financed circuit breaker helps to assure that local governments will have sufficient funds to provide adequate fire, police, education, and other services.

9) **Cap growth for individual properties**

An assessment growth cap that stays with a property would still create major inequities among homeowners in similar circumstances. The amount of property tax would be based largely on the age of the property they own or buy, rather than the just value of the property. It would favor existing homes over new construction, and favor the homes that had been under the cap the longest. It also would reduce the property tax base significantly below the level anticipated under SOH.

10) **Increase the Homestead Exemption**

An increase in the homestead exemption could be a reasonable alternative if SOH is eliminated or phased out. A homestead exemption is a relatively progressive and fair approach, because it relieves a larger portion of the property tax for more modest homes than it does for high-value homes.

The implications for local taxable value and revenue would have to be considered, with particular attention to localities that are close to the millage limit, to determine the size of a homestead exemption increase that could be appropriate.

A homestead exemption relieves property taxes but does not protect against sharp increases in assessments. An increase in the homestead exemption coupled with a state-financed property tax circuit breaker could accomplish both goals without introducing the type of distortions that occur under SOH.

11) **Local Option Homestead Exemption Increase**

An increase in the homestead exemption could be a reasonable alternative if SOH is eliminated or phased out. A homestead exemption is a relatively progressive and fair approach, because it relieves a larger portion of the property tax for more modest homes than it does for high-value homes.

A local option for a homestead exemption increase, however, would create inequities among taxpayers living in different jurisdictions. These inequities are likely to favor taxpayers living in wealthier districts and disadvantage those living in places with less property wealth. The wealthier jurisdictions would be able to afford to give the additional homestead exemption, while the poorer districts would either not be able to give the exemption or would have to curtail needed services in order to afford the exemption.

12) **Expand Homestead Exemption Eligibility**

Homestead exemptions are designed to provide property tax relief to permanent residents of a state who own and occupy a primary residence. No state extends this type of relief to vacation homes or second homes. By maintaining a distinction between homestead property and other property, Florida is able to "export" a portion of its tax burden to the many residents of other states that maintain a second home in Florida — either for personal use or for rental. This is appropriate policy; the homestead exemption should continue to apply to homestead property.

14) **Cap Tax Growth for Property Tax-Assessing Authorities**

Caps that set a rigid limit on revenue or spending growth have a number of problems. They lock-in inequities among jurisdictions; a jurisdiction is forever limited to the base revenue it has when the cap takes effect (adjusted by the adjustment factor in the limit). This means that jurisdictions that could afford or chose to provide better roads or better schools at the time the cap is instituted will always have that advantage, while other jurisdictions can never catch up.

Even more problematic, while on its face a cap formula may seem to allow reasonable growth from year-to-year, in practice a rigid cap is likely to force deep cuts in public services over time. No formula can anticipate needs, and override provisions are often too cumbersome to be useful. Putting a cap on taxes or spending does not prevent the cost of services from increasing. In particular, no local jurisdiction can effectively control health care costs; the growth in health care costs is system-wide, and affects public and private insurance alike.

For example, Massachusetts has a cap that allows property tax revenue from existing properties to grow by no more than 2.5 percent per year. From 2001 to 2005, municipal spending for employee health insurance increased 63 percent. Depending on the data used, that either represents 80 percent of the allowed growth or eight percent more than the allowed growth. In either case, the municipalities did not have enough revenue growth to accommodate both the growth in health insurance and continue to adequately provide the other services for which they were responsible. (Source: John P. Hamill, "Communities at Risk," *MassBenchmarks*, Vol. 8, Issue 2, 2006.)

Caps are particularly likely to force cuts in public services if they use an "inflation plus population" formula. That level of growth has been shown to be well below the growth needed to maintain services.

15) **Cut Tax Rates for Property Tax-Assessing Authorities**

This is not a good idea. It is easy to say that tax rates should be cut. It is much more difficult to say exactly what public services local governments should cease providing or provide in lower quality or quantity. Should there be less law enforcement or fire protection? Poorer roads? A blanket requirement to cut rates does not take into account the needs of residents for public services.

16) **Assessments Based on Current Use**

There is some merit to assessing property based on current use. It helps preserve affordable housing and small businesses that otherwise would see large jumps in property taxes if developers want the property for other purposes, and prevents rapid gentrification of neighborhoods. In developing such a proposal, however, care needs to be taken to include provisions that prevent abuse — such as developers holding formerly agricultural land for future development, but paying the agricultural rates.

17) **Assessments Based on a Moving Average**

18) **Property Tax Replacement**

There is value in having different types of taxes and fees support local public services, because different taxes fall more or less heavily on different groups of taxpayers, and because different taxes perform differently over the business cycle.

Sales taxes are more volatile over the business cycle than property taxes. When the economy weakens, people tend to put off purchase of large-ticket items such as cars, appliances and furniture. As a result, sales tax revenue growth slows during recessions – and may even decline. Sales tax growth in U.S. as a whole from Fiscal Year 2001 to 2002 (the depth of the last recession) was only 0.4 percent. In Florida, it was a somewhat better 1.4 percent, but still below the level needed to maintain services. In Georgia, sales tax revenue declined. (Data from Rockefeller Institute of Government, State Revenue Report, September 2002.) By contrast, property values and thus assessments are far more stable. Even when housing "bubbles" burst and just value declines, the assessment cycle cushions the decline and makes revenues more predictable.

In addition, the sales tax is the most regressive tax that can be levied. It falls most heavily on the lowest-income people, who consume all of their income (and sometimes more than their current income) and most lightly on people at the highest income level. The property tax is also regressive, but not as steeply so as the sales tax.

There is, however, opportunity for the state to broaden the base of the sales tax by eliminating some exemptions and extending the tax to more services. If the state did broaden the base, local government sales taxes would yield additional revenues at the current rates that could take some pressure off the property tax.

20) **Supermajority for Tax Increases**

Supermajority requirements for tax increases empower a minority of legislators (at whatever level of government) to thwart the will of the majority. In practice, such requirements increase the power of the minority to extract special favors or projects in return for their votes — to a greater degree than is true for simple majority requirements. For example, the Citizens Budget Commission in California found evidence that the requirement for a two-thirds majority to pass budgets has led to enactment of substantial "pork barrel" legislation that individual legislators have promoted. (Source: Reforming California's Budget Process: *Preliminary Report and Recommendations of the California Citizens Budget Commission*, Center for Governmental Studies, Los Angeles, 1995.)

Moreover, a supermajority requirement means that it takes only a simple majority to create a tax break or loophole, even a narrowly targeted one that does not serve the public interest, but would require a supermajority to end it because it would be a "tax increase."

21) **State-Financed "Circuit Breaker" Reimbursement for Excessive Property Taxes**

A circuit breaker is a state-financed rebate that can go to homestead homeowners and renters. (Renters are included because landlords pass through the property tax in the rent.) Like an electrical circuit breaker, the rebate prevents taxpayers from being "overloaded" by their property tax bills. Some 24 states use this type of property tax relief. About half limit eligibility to elderly and disabled taxpayers, while the others extend eligibility to all taxpayers.

Circuit breakers are designed to rebate property taxes when those taxes exceed a specified percentage of taxpayers' income. In addition, the policies typically specify an income limit for eligibility, and the maximum amount of rebate any taxpayer can receive.

Circuit breakers are good policy because they are targeted on those who are overburdened by property taxes. Thus they provide relief where it is needed at a more modest cost than blanket tax relief strategies such as homestead deductions. For taxpayers who have already "tripped" the circuit breaker and are in the rebate range, they also protect against property tax increases. Once property taxes reach the specified percentage of income, taxpayers do not pay any additional increases (subject to the maximum set for the rebate, if any).

Moreover, circuit breakers are "portable." They are tied to income and the amount of the property tax, so they do not cause any distortions with respect to movement around the state.

Using a combination of a direct relief strategy such as a higher homestead exemption along with a circuit breaker provides a goods combination for property tax relief – providing some broad relief to everyone, holding down the proportion of property tax paid by homestead property, and targeting special relief on those taxpayers who most need it. By using a combination of local revenue and state revenue for relief, the local governments can retain sufficient revenue to provide the needed public services while the state can use its broader tax base to provide additional relief.

EXPERT COMMENTS

DOMINIC CALABRO

FLORIDA TAXWATCH

Florida House of Representatives
Property Tax Summit
Tuesday, February 20, 2007

Florida TaxWatch has been examining Florida's property tax system for many years, including monitoring the impact of the Save Our Homes amendment ever since it was implemented. We have been analyzing the current issues in depth for almost two years.

We have concluded, as many of you have, that the current system cannot continue and comprehensive change is needed. We commend the Florida Legislature for committing to address these problems but caution that in the rush to "do something about property taxes," it avoid attempting fixes that may have a surface popular appeal, but fail to provide long-term solutions and in fact worsen some of the current problems.

In essence, the problems arise from two main factors:

1) local government spending that has been rising largely unchecked, growing faster that the economy, inflation and Floridians' ability to pay for it; and
2) Save Our Homes has created numerous inequities and a property tax system that is unsustainable.

While Save Our Homes has kept taxes down for many, the rapid growth in property taxes is unfairly being borne by the rest of the taxpayers, shifting billions of dollar in taxes to businesses, renters, people who move, new homes and anyone who owns property not covered by the homestead exemption. This has created a host of problems, including unequal taxes on similar houses, people feeling they cannot afford to move, small businesses being taxed out of business and impacting affordable housing by increasing rents and taxes on new homes. In addition, by keeping their taxes down, SOH has kept many homeowners from being involved in local tax and budget decisions, which has likely had an impact on rising spending.

The growth in local government spending is fueled not only by property taxes, but other revenue as well. While property tax levies have skyrocketed in recent years, other sources of revenue such as special assessments, impact fees and charges for services have grown even faster over ten years. Moreover, many local officials are ignoring the Truth in Millage law by enacting large tax increases and passing them off as "holding the line" or even stating that they are cutting taxes.

In December, Florida TaxWatch released our property tax study containing recommendations for reform.

To truly reform property taxes, Florida TaxWatch finds that Florida should:

- Repeal the Save Our Homes Amendment (SOH), but allow homeowners to keep their current reduced assessment, so their savings would be retained. The amount of the differential would not change. For example, if a home were assessed at $60,000 below fair market through Save Our Homes, future assessments would be at full market value minus $60,000.

- Limit annual millage rates by requiring that local governments adopted a re-defined rolled-back rate (one that allows for inflation). This would provide a direct property tax limitation for all property owners in Florida. It could be overridden by a supermajority vote of the jurisdictions governing body.

- Institute a cap on the growth of all local government revenue, limiting it to either the growth of population and inflation or personal income. This could also be overridden by a supermajority vote.

- We also recommended a one-time, statewide portability of a homeowner's assessment reduction, but the legal analysis performed for this House raises serious constitutional issues with portability.

- Consider current use when assessing commercial property. The mandate to assess all property at fair market value, or "highest and best use", means that commercial property is taxed on what the property can sell for, not what the value of it is with the existing business. This has created unaffordable tax liabilities for many businesses, such as small hotels and apartments, and small businesses near the waterfront. However, care must be taken to limit abuses of a current use standard. The current use should be an on-going, legitimate concern.

We also recommend creating a tangible personal property exemption for business properties (e.g., $25,000). Florida TaxWatch has long been a proponent of exempting small business from tangible personal property taxes. This will help them cope with the large property tax increases they have experienced. Also, complying with the law creates a lot of work for both the public and private sector with (in the case of small businesses) relatively little return.

Proposals to fix Save Our Homes do not completely fix it, and while they may address one issue, they make other aspects worse. Now is the time to replace Save Our Homes with a system that protects taxpayers' current savings, keeps inequities from getting worse and begins to equalize them, and most importantly, holds taxes down for all property owners in the future.

In addition, the likely unconstitutionality of portability makes it more apparent that Save Our Homes can not continue in Florida.

Other Proposals

I would like to discuss some of the other property tax reform options that have been suggested.

Portability

Regardless of the pros and cons of portability, the most important consideration now is that it appears that portability would be unconstitutional, violating the Commerce Clause of the US Constitution.

That argument aside, the issue of people "locked-in their homes" is a real problem. However, portability would exacerbate Save Our Homes' problem of shifting taxes to non-homestead and new homestead property. Under our recommendations, portability would be only allowed if SOH were repealed, allowing people to keep their current assessment reduction. Homeowners would then be allowed a one-time, statewide portability.

Expand Save Our Homes to all property

This would help reduce the future tax shift. However, many of the problems created by SOH within homestead property would pop-up among non-homestead property. Ultimately, the majority of the burden for increasing property taxes would be borne by new construction (both homes and commercial property.)

Also, by limiting the increase in assessments (value) for all property, there would be no effective limit on taxes for anyone. SOH did little to limit total taxes, but homesteads saved by shifting the burden to non-homestead property (and new homes and people who move). With no one to shift it to (except new construction), if local governments increased millage rates to offset reduced assessments, the tax increase would be borne by everyone.

Increase the Save Our Home Cap Percentage

Increasing the cap would help limit, or even reduce, the inequities of SOH, not just among similarly situated properties, but between homestead and non-homestead as well. In years where actual values grew faster than the cap, the tax shift would be limited. In years when actual value grew slower than the cap, the disparities would be reduced. For example, if the cap were 5% and a homestead's actual value increased by less than 5% (or even fell), the assessed value would be increased by 5%, as long as the assessed value didn't exceed the just value.

A higher cap can allow the assessed value of SOH protected property to "catch-up" to its actual value. Although this can happen now, a higher cap increases the chances of a taxpayer's assessment going up, while their just value fell, didn't change, or grew slightly, which would surely be unpopular with taxpayers.

Increase the Homestead Exemption

The homestead exemption should not be increased as long as Save Our Homes exists in its present form. Increasing the homestead exemption does not address the major current property tax problem and, in fact, would exacerbate it. Without comprehensive changes, the Legislature should avoid the politically expedient move of proposing an increased homestead exemption.

Create a cap that stays with a property and is not affected by a change in ownership.

If the cap only applied to homestead property, the effect would be a Super Save Our Homes that accelerated the tax shift to non-homestead (and new homestead) properties. It would eliminate the portability problem (if constitutional.) If it applied to all properties, the burden for increased property taxes would be borne almost entirely by new construction.

Replace Property Taxes With Sales Taxes

It would take almost an additional 8 cents in sales taxes to replace the $30 billion in property tax levies in FY 2007. This would bring the total sales tax rate in the state to approximately 14% to 15.5%. Further, with such a high rate, there would certainly be some reduction in demand, meaning the additional 8 cents probably would not raise the $30 billion. As former Federal Reserve Chairman Alan Greenspan said, "you get less of what you tax."

Florida already has one of the highest sales tax rates in the country. To more than double it does not make sense. It would create competitive problems, greatly increase taxes for anyone who doesn't currently pay property taxes, make Florida more expensive (and less desirable) for tourists and create some major enforcement issues. With sales taxes that high, people will search for ways to avoid them.

Also, sales taxes tend to be regressive, while property taxes are proportional.

Replacing part of the state's property taxes with sales taxes is also problematic. It would be difficult to assure that the sales tax savings is still reflected in future adopted millage rates.

Closing:

This is a complex issue, and we urge the Legislature to not act hastily and make sure the long-term effects of any changes are considered. A comprehensive reform is needed – one that treats all taxpayers fairly. And for any reform to truly hold down taxes, millage and spending controls must be a part of the reform.